

## "India Grid Trust Q3 FY '23 Earnings Conference Call" January 30, 2023







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WHOLE-TIME DIRECTOR – INDIA GRID TRUST

Ms. Divya Bedi Verma – Chief Financial Officer

- INDIA GRID TRUST

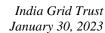
Ms. Meghana Pandit – Chief Investment Officer

- India Grid Trust

Mr. Satish Talmale - Chief Operating Officer -

INDIA GRID TRUST

MODERATOR: MR. JITEN RUSHI – AXIS CAPITAL



**Indi**Grid

**Moderator:** 

Ladies and gentlemen, good day, and welcome to the India Grid Trust Q3 FY '23 Earnings Call hosted by Axis Capital Limited. As a reminder all participants 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 star and then zero on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jiten Rushi from Axis Capital. Thank you, and over to you, sir.

Jiten Rushi:

Yes. Thank you, Inba. Good evening, ladies and gentlemen. On behalf of Axis Capital, I'm pleased to welcome you all for the India Grid Trust Q3 FY '23 Earnings Conference Call. We have with us the management team of India Grid Trust, which has been represented by Mr. Harsh Shah, CEO and Whole-Time Director; Ms. Divya Bedi Verma, CFO; Ms. Meghana Pandit, CIO; and Mr. Satish Talmale, COO. We thank the management for giving us this opportunity. We shall begin with the opening remarks from the management followed by Q&A session.

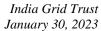
I would like to now hand over the call to the management for opening remarks. Thank you, and over to you, sir.

Harsh Shah:

Yes. Hi. Good evening, everyone, and thank you for joining the call today. Thank you, Axis team to host us. To start with as we have done, we would like to reiterate our vision on slide number three. We had set out to become the most admired yield vehicle in Asia. And I think all the actions and decisions that we have taken is keeping in mind to achieve this vision. And we believe our strategy of focused business model, value accretive growth, predictable distribution and optimal capital structure has contributed significantly on this vision over the last five years. We continue to strive to live up to that.

Now coming to the quarter on slide five, where I'll have a quarterly update regarding the highlights of the quarter. In this quarter, particularly, it was an action heavy quarter with two-three acquisitions of different types getting signed. At one point, we have signed around INR 1,500 crores of acquisition of KTL (Khargone Transmission Limited) from Sterlite Power, which is part of framework asset. On the other side, we have signed a MOU with G R Infra Ltd for around INR 5,000 crores of assets where we look to bid and eventually acquire these projects from GR.

So the G R Infra one where I was talking about the MoU for INR 5,000 crores of assets in work where we'll bid for certain assets together, and we also signed a framework agreement for specific asset Rajgarh Transmission Limited which was won by G R Infra. And in the same quarter, we concluded the acquisition of Raichur Sholapur Transmission Company Private Limited from three developers. So we see this quarter as a successful quarter with respect to the business acquisition.





On the other side on the financial performance, we have continued our robust performance, where our EBITDA and revenue both grew by 4% year-on-year. Collections have remained at 100% this quarter. And DPU increased versus last year versus this year, we are at a 3.5% growth, which we are confident to deliver this year, and we'll pay the INR 3.3 DPU this quarter.

Our net debt to AUM remains at 58%. This is pre-acquisition of KTL, but significantly below the 70% leverage cap as per SEBI, which provides us ability to grow without dilution. On the operating performance side, our average availability remained at 99.76%, which is what provides us maximum incentives. Proud to achieve 2 million safe man hours and still going on. On the DigiGrid platform, which we have developed, which is utilizing the earlier digital investment, that is yielding a lot of results in terms of ability to optimize the cost and, I would say, use even drone technologies to ensure that our long-term O&M cost remains lower. So that's the quarter three highlights as a performance.

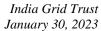
Moving on to the next slide, slide number six is about the industry update. In general, the power sector remains strong, and it is one of the good high-frequency indicator of economic activity. And in general, the demand growth has increased and has continued to increase. And to be honest, demand growth has surpassed the economy and what historically people have predicted. So we do feel confident that the demand growth in India on electricity side will continue to grow, on account of a variety of short-term and long-term measures. And short term, maybe linked to the economic activity, but the longer run, like "EV-fication" of transport might add a substantially big boost in years to come.

On the transmission side, again, CEA recently released a report which showcases about INR 2,50,000 crores of capex required to modernize and set up the country for 500 gigawatt of RE capacity and achieving energy transition. So all in all, I would say that in general, the transmission network in India, we believe that is going to expand substantially first on account of the general load growth, and second due to India's efforts towards energy transition. So we believe that there is going to be a substantial amount of capex and we will have a reasonable amount of business out of that.

With that outlook on quarter and the year, I would hand over the mic to my colleague, Satish Talmale, who is Chief Operating Officer, to take you through the operating performance of IndiGrid for the quarter.

Satish Talmale:

Hi, everyone. Good afternoon. Happy to share quarter three operational performance for IndiGrid portfolio of the assets. So again, we focused our objective on zero harm on EHS perspective. For the quarter, we had no major incident, no fatality, zero LTI, zero MTC i.e.Medical Treatment Cases and zero first aid cases. As Harsh mentioned, we are really proud to achieve 2 million safe man hour milestone, and we'll strive to continue that performance every quarter. On transmission availability performance, we have achieved portfolio availability of 99.76%. Typically, quarter three and quarter four are the quarters for performing all the annual shutdown activities. As you can see on the right-hand side, there are a few assets where it is





slightly below 99.75%. That is attributable to the planned shutdown outages, which we have undertaken to improve the reliability of the asset and majority of the assets are on the track to achieve 99.75% target availability.

On reliability, this quarter was one of the record quarter for us in IndiGrid history, we achieved 0.08 trips per line, which is, I think, best in industry at a peer comparison level and this is all due to all the hard work which ground teams are putting to make sure the assets are reliable and there are no defects in the system.

Digital Asset Management, as we updated previous quarter, all the assets in the portfolio are operating via DigiGrid platform, and now we are working on advanced analytics, which will help us to make fact-based decisions to improve the performance on reliability, safety as well as on the cost optimization. I'm happy to share that we completed our two solarization project at Bhopal and Dhule substation. Idea was to achieved net-zero auxiliary power consumption via renewable energy sources so that we achieve our net zero objectives, which is part of our ESG framework.

Again, as far as ESG framework is concerned, biodiversity is the major initiative, which we have undertaken and all the action planning study has been initiated for all the critical portfolio assets. On the left-hand side chart, again, the focus on training continued in the quarter. As I said, there were no lost time incidents in the quarter.

Unsafe condition reporting, there is a focus so that there is a culture to report all the unsafe conditions at sites. "Near miss" helps us to prevent any future accident. So that is also being continuously reported.

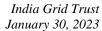
Our solar utility 100 MW power plant has generated 46.32 million units for the quarter with a performance of 21.97% CUF with an availability of 99.41%, and it is one of the best-performing plants in the entire solar park. So we are trying to achieve our consistent track record to maintain superior availability.

With that, I will hand over to Divya.

Divya Bedi Verma:

Thank you, Satish, good evening everyone, we are on slide number eight. Good quarter with a stable performance as compared to the previous quarter, previous year, we have recorded a revenue of INR 590 crores with a 4% growth. EBITDA stood at 536 crores. NDCF generated for the quarter was INR 294 crores. And we are as per our guidance committed and board has approved distribution of INR 3.30 per unit.

Collections for the quarter were good at 100%. We collected 100% of the revenue, and although for the previous year, similar quarter, the collection percentage was at 103%, but collections have improved over previous quarter. In quarter two, we were at 96% of the collection. The DSO days stands at 63 days, as on December 31,2022, and that's month-on-month collection





efficiency for October, November, December, we have seen good progress, resulting 100% collection for the quarter.

Coming on the next slide, number nine, DPU for the quarter is INR 3.30. It will be distributed in form of interest and capital repayment. Interest is INR 2.80, and capital repayment is approximately INR 0.50. The outstanding units at end of the quarter is around INR 70 crores and the gross distribution to all the unit holders at INR 3.30 is coming to INR 231 crores. Record date for the distribution is January 31, 2023 and tentative date by which the unit holder will receive the distribution is February 9, 2023. NAV as of December 31,2022 stood at INR 133. Post this quarter distribution, IndiGrid would have distributed INR 68.41 per unit with a total distribution of around INR 3,646 crore distribution. On the right hand side, we showcase the trend of distribution year-on-year basis, which is stable and scalable growth of 3% to 4% year on year basis. We are on track to meet this year and the guidance of rupees INR 13.20 per unit.

Coming on the next slide, 10, which showcase a waterfall from our EBITDA to the NDCF generation. At an SPV level, we have a consolidated EBITDA of INR 530 crores. Net of the finance cost, working capital movement, capex, taxes at SPV level, NDCF generated at SPV comes to around INR 543 crores. The net of the trust level expenses, interest cost, and tax, we have generated NDCF of INR 294 crores, which is well above our guidance requirement, of which we will be distributing INR 231 crores. And this quarter, again, we are replenishing reserves, so this gives us an upside of INR 63 crores of reserve. With this, the total reserve end of the quarter three for FY23, at the consolidated trust level is around INR 217 crores.

So that's all. I hand over to Meghana to take the subsequent slides.

Meghana Pandit:

Thanks, Divya. Good evening, everyone. I'm on slide number 11, giving a snapshot of the balance sheet as on December 31, 2022. We remain AAA rated by the three rating agencies and our average cost of debt portfolio continues to be at around 7.5%. We ended the quarter with a cash balance of about INR 1,039 crores, which includes the distribution for this quarter, DSRA and balance cash. The mix between the fixed rate borrowings and floating rate borrowings across the total gross borrowing of around INR 13,000 Crores continues to be tilted towards the fixed rate of more than three-fourths of the book.

Net debt to AUM as of 31st December 2022 continues to be at around 58% leaving a significant headroom for acquisition. Interest coverage ratio remains at a healthy over 2.2 times. The incremental cost of debt in line with the interest rate cycle in the market for this quarter was slightly higher at around 7.8% for the third quarter. The pie chart on the right hand side provides a mix of the sources of borrowing, which today stands on the bank loan side about 60-odd percent, NCD is about 40%. NCD is being subscribed by various investors of mutual funds, corporates, retail, HNI's, insurance companies, and the banks- also between private banks and PSU banks.



The bottom chart provides the repayment / refinancing schedule of the loan book over the next 10-15 years. And as you can see that broadly not more than 10% to 12% of the overall loan book comes up for repayment/refinancing in a particular year, ensuring that we are not going with a bunched up of any debt maturity coming up in a single year.

Moving on to slide number 12 on the total return chart, as on 31st December 2022, we continue to provide superior risk-adjusted return, annualized return being about 14% and total return of 105%. Breakup of the total return between this and price change of 65% and 40%. This doesn't include the third quarter distribution. On the risk basis, again, beta continued to remain very close to zero and both on the debt side as well as on the equity side, we have continued to outperform the indices and infra stocks.

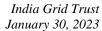
Just to spend a couple of minutes on the next slide, slide number 13, on the framework agreement with G R Infra. This is an agreement to acquire Rajgarh Transmission Limited, which G R Infra won. This is an interstate transmission tariff-based competitively bid transmission project. This project consists of the establishment of Pachora SEZ substation of 400 KV level and a transmission line as well. The scheduled COD for this project is expected to be by December 2023. It is awarded on a BOOM basis, the payment will be under the interstate transmission POC mechanism by CTU. The levelized tariff for this project is about INR 41 crores with a TSA tenure of 35 years. IndiGrid will be acquiring this project upon its COD in the third quarter of next fiscal.

In addition to this, we have also signed an MOU with GR Infra to jointly build up to INR 5,000 crore of various transmission projects which are coming up. The projects will be jointly bid for identified transmission project. The idea is both G R as well as IndiGrid will be working on jointly on these bids and IGT will be acquiring these projects from G R Infra.

Going to Slide Number 14. We signed a binding share purchase agreement with Sterlite Power for acquisition of Khargone transmission project. This is one of the framework assets that we are acquiring and this constitutes 6 revenue generating elements. It is again, an inter-state transmission project, part of the POC mechanism with CTU and BOOM project with 35 years, the balance life remaining for this project is about 32 years.

This has become operational and revenue generating, since December 2021 with the levelized tariff being about INR 159-odd crores. The size of the project from an acquisition perspective is close to about than INR 1,500 crore and likely to add about INR 85-odd crore to the net distributable cash flow for IndiGrid, on a yearly basis. Post-acquisition of this project, the AUM for IndiGrid will increase to about INR 22700-odd crore and completely fits in this IndiGrid strategy of acquiring value accretive assets.

Unique feature about this asset, again, is there is existing synergy with one of our existing 765kV networks in Bhopal Dhule Transmission Project. So one transmission line terminates in the Dhule sub-station, by which we are able to optimize on the operations and maintenance for





Khargone transmission post its acquisition. I will request Harsh to take the next couple of slides on the business outlook over the next few quarters, please.

Harsh Shah:

Thanks, Meghana. On Slide #15, we have tried to capture a historical track record and what might happen in the future. And I think some of you might have been investors since IPO or even have been present around that time. So we had showed this chart at that time, five years ago, to showcase how the DPU chart would look like if there were only IPO assets, which is IPA (Initial Portfolio Assets) assets as mentioned above.

Then there was a set of assets which we targeted to acquire, which is in the dark blue colour - new acquisitions number one. We concluded other two big asset acquisitions pre 2019, which were ENICL+OGPTL+NRSS, which is shown in green. And subsequently, we have been continuously doing that.

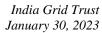
Now what this chart showcases is that the way in which we can actually deliver predictability at predictable growth is by acquiring assets consistently at the right price and right growth which would enable us to not only streamline our DPU predictability but also increase it over a period of time. And that's why this chart is showcased to show that, if you look at FY '23 and behind, it is the value accretive growth that has spanned out and year-on-year, we've increased by 3% to 4%.

And as we stand today in FY '23, we not only have headroom to maintain what we have distributed for a long time, but also ability to grow by acquisitions as well as the acquisitions that we have done till now.

Going on slide 16, is the business outlook for us for the rest of the year and coming few months. So on the portfolio strategy, I think we will remain to continue to maintain our assets well and ensure that you know what we have committed and promised, it's delivered as a sustainable distribution to our investors. This year, we will look to deliver the DPU guidance of Rs. 13.2, nine months of which we have already done.

We continue to acquire assets. We have in all acquired about or signed to acquire about INR 2,000 crore over the last quarter. And the future outlay that we see in the transmission sector, about INR 2,50,000 crore is a sizable opportunity. In addition, as and when the state assets become monetizable, we believe that's going to be a large-scale expansion as well.

We are also proactively looking for other power transmission bids as well as at adjacent spaces like utility scale battery storage, which do provide sustainable cash flows. On the balance sheet side, I think, as we maintain before, we like to remain in the mean and when interest rates were falling too fast we didn't fall too fast, and when the interest rates were rising too much, our cost of debt at a portfolio average level, it is going to pretty much remained lesser than the growth that has taken place in the interest rate. So we try to remain in the mean to ensure that there is less variability in terms of our interest rate and cost, and we can provide predictable distribution.





On the asset management side, we continue to maintain maximum ability in our incentives. And lot of our portfolios we have done self-reliant O&M practices, which pretty much means that there is no contracted AMC and our team members at IndiGrid are maintaining those assets. In addition to, we are looking at more business intelligence platform, which will further allow us to optimize the cost and increase reliability.

We commit to and try to maintain the world-class EHS and ESG practices across our portfolio. On the next point, while many of them are linked, especially the first two, is with respect to certain amendments in the tax anomalies that we are seeing between InvIT taxation and others. I think let's hope what the budget throws, but if there is something which we do believe that will result into more liquidity and better liquidity for investors and in which, we can refer, attract more capital.

I think that's where we kind of end the short presentation for the quarter. We can please open for question answer.

Our first question is from the line of Mohit Kumar from DAM Capital.

Sir, first question is on this framework agreement. So have we identified the projects? And are these projects going to bid out in next three months? Or is it a slightly longer term in nature?

Yes, we have identified the projects, they are specific projects that we are working on. I think the bid pipelines are too specific. But they are ones which are already announced. So it will be one of those projects.

Like, what will be the leverage post all this transactions, all the acquisitions especially, once we finish the KTL? And how much extra limit we have to borrow and acquire the asset? And how you look at the capital for FY '24?

Yes, So Mohit, I think that's a maths I can run or hazard a guess, but I think if you add in our AUM and debt INR 1,700 crore will be adding between Raichur and KTL ,give that number. But Meghana, do you have the specific number handy, which you can share?

Yes. So Mohit, today, we are at 58%, which is after Raichur. After acquiring Khargone transmission, it will go to somewhere close to 61-odd percent, And that's the identified assets. After that, post-acquisition, of course, we will add it both depending on the size of the acquisition, it will get added to the debt as well as to the bottom line. But even after acquiring Khargone, you can see there is still a significant headroom that is available to us.

Last question, sir, what is holding up the monetization of that Power Grid asset? And is there anything obstacle to bid the assets out, is there something you heard of?

So I don't know about the hearsay part, but whether Power Grid decides to monetize or not remains to be seen. Any public asset monetization, Sale of asset or concession should go through

**Moderator:** 

Mohit Kumar:

Harsh Shah:

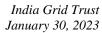
**Mohit Kumar:** 

Harsh Shah:

Meghana Pandit:

Harsh Shah:

Mohit Kumar:





a competitive bidding process. And that would be the right thing to do because at the end of the day, the assets are built with taxpayers' money. And it's important that right transparent bid process takes place for any monetization, be it Power Grid assets or others. So I think that's our view is, whether Power Grid decides to monetize or not remains to be seen. Obviously, it's a listed company with a separate board it's their choice and decision. But I would rather say even state monetization. If you look at the AOMT guidelines, they are very, very clearly identifying that it should be an auction. And I hope that states come up with that process very soon because that's where most amount of capital is also needed.

**Moderator:** 

Our next question is from the line of Rahul Marathe from ICIC Prudential Pension Funds.

**Rahul Marathe:** 

If you would like to take me through this MOU that you have signed with GR Infra. So just wanted to get some clarity like are there any kind of greenfield risk that we would be exposing ourselves to in this joint-bidding?

Harsh Shah:

So I think, Rahul, I would say that the MOU is more like an alignment right? There are different projects under that. And I would say that in the framework that we have signed for the Rajgarh Transmission, we are not taking any greenfield risk. But projects where we may have synergies with like, let's say, an expansion or connecting bay with our own substation or a small lines, we don't mind taking that risk.

We've already taken it in Kallam and that's going well. So both parties will need to agree to a particular project and at the end of the day, what is the maximum value that both parties bring to table. That's what one evaluates to win in a competitive process. So such MOU allows us to talk freely and develop explore different options. And one of the options can be that in a project where IndiGrid feels, there is more synergy and more value for IndiGrid, you might pick under construction risk as well.

**Rahul Marathe:** 

Sir, what would be the total exposure of such kind of risk in our total AUM? Like you would have some risk management on that framework?

Harsh Shah:

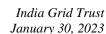
So I would say look, we have risk management framework, but that's not public and we can't make it. But there is a clear guideline of SEBI that we will never be more than 10%. So that is like a law for us. We cannot be and we would not like to be even closer to that number. But what exactly we do within which 10% is more a risk management framework at a management level.

**Moderator:** 

Our next question is from the line of Pratik Kothari from Unique Portfolio Manager.

Pratik Kothari:

And congratulations for a couple of potential acquisition after a long time.. And highly appreciate your sharing the indicative DPU chart. As my first question regarding the MOU again, this seems to be a very interesting opportunity for us, the method to go forward. If may just highlight any risks that we need to be aware of why do get into such agreement? Or what are you confident of?





Harsh Shah:

So, the MOU itself doesn't pose any risk. As I said, MOU is a memorandum of understanding. So we are working with a common understanding for a certain set of projects that itself will never pose a risk. But as I said, we will look to do different type of arrangements for bids, which are more strategic or more lucrative to IndiGrid. So there may be an under construction project, which we undertake. But then it only is decided by many other parameters. So that risk as on today is not there. We may take it, but that will be considering if we are getting substantial synergies over there.

Pratik Kothari:

But in such MOU isn't it that, in this case GR Infra would be the developer and once that is done, IndiGrid takes on. So where does this under-construction risk is coming?

Harsh Shah:

So one is what you described as a framework type of assets which we have done before and that's what we have done for Rajgarh project. And when we say under construction risk, for example, right now, we have taken Kallam transmission as 100% under construction with IndiGrid. While it's going well. But there are projects in which we might have synergies and have risks which are not suitable for IndiGrid, we might partner with somebody. And that could be with GR for one of the projects. So it depends on where IndiGrid can add value in those projects, you might take under-construction risks so as to say that we might bid for it.

Pratik Kothari:

And just one small clarification. You mentioned this term levelized tariff a couple of times, can you explain what does that mean?

Harsh Shah:

So any bid documents have a number which gets compared that whoever has the lowest number will be declared a winner, and that number becomes public. So the levelized tariff is that number. We quote for 35 numbers in the model and then bid. In order to compare with one number, the bid process coordinator may use a discount rate. It can be 10%, 12%, different, depending on what they have explicitly stated in the bid. So these 35 numbers gets discounted and there sum is called the levelized tariff. When they announced that this bidder has won this project at this levelized tariff. And there's a public announcement. So that is the number that this levelized tariff is referring to.

Pratik Kothari:

And is it fair on our part to compare what you're seeing for this asset versus the leverage tariff for that underlying assets?

Harsh Shah:

Not for capex, yes. One, there are two anomalies in that because levelized tariff will change depending on what bid process coordinator took the discount rate. It can be substantially different than the other. So the mathematics does not play out very well. And second is we don't pay for capex, as we pay for acquisition value. Most of our assets have a tariff curve publicly available. So you can use a particular discount rate and then compare that to the cost of acquisition that we have paid, not capex, cost of acquisition.

**Moderator:** 

Our next question is from the line of Chandra Mouli M, an Individual Investor.



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Chandra Mouli:

Sir, in INR 0.50 per unit which you are distributing this quarter as a capital repayment, is it tax free to the unit holder?

Harsh Shah:

There is a disclosure on one of our old website and exchanges for any tax treatment, I think it is best to refer to that because tax is not our area of expertise and that how individuals will get taxed. But we have taken a lot of advice and then on tax treatment, potential tax treatments, I think best is to refer to that to check the tax treatment.

Chandra Mouli:

So the next one is you had mentioned that the new acquisition will add about INR 85 crores of NDCF from the coming years. That means my understanding is correct that NDCF will go up by another 8% to 9% from the current level. So is it fair to assume that the distribution per unit will also increase in that rate next year?

Harsh Shah:

So I think the reason why we showcased the chart before was exactly that what can be done. However, whether the distribution is increased or not, we have historically taken a decision in the quarter 4 of the Board Meeting for the next annual year. So we will be able to guide on that only in the next quarter. However, if you look at last five years track record, we have consistently done it. We apply two parameters. One parameter is that when we increase distribution, we want to increase it in a way that at least for next five, six years, even if we do not acquire anything, our distribution still remains at that level. And that is very important for our business model, because we may not acquire assets in some years.

We may not acquire assets every quarter. And our business should still provide enough headway to provide distribution visibility to investors and our timing that when the market is right for acquisition, we acquire at the right price. So we keep that flexibility with us, but we compare. Whenever there is an ability to increase distribution consistently and it will remain stable for next five to six years, we look forward to increase that. That has been our strategy and historically we have done it. Whether it gets done this quarter or not, it's the Board's decision and we will take it up in the next quarter meeting.

**Moderator:** 

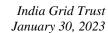
Our next question is from the line of Vishal Doshi, an individual investor.

Vishal Doshi:

I have a simple question. The presentation mentions in quarter three, FY '22 DPU of 3.19 and 3.30 in quarter three, FY '23. So, if you see the breakup of the slide number 9 of the presentation, it shows the distribution per unit 3.19 with a breakup of interest at 3.1137, dividend yield and capital repayment at 0.18. But if you total to this 3.11 and 0.18, it comes to a total of 3.29, visavis 3.19. And if you compare it with the payment of quarter three, which is 3.30, I think there is barely any year-on-year increase in the distribution per unit. So, I would request clarification on the same.

Harsh Shah:

Sorry, if I get your questions right, what you're saying is that because there is capital repayment, there is not enough increase. Is that what you're saying?





Vishal Doshi: Yes, that was my second question. But my first question is that is there any error in the reporting

numbers? Like, if you see the distribution per unit is 3.19, am I right? However, if you see the slide number 9, it shows that the interest has 3.11 and capital repayment has 0.18. If you total

these two items, it becomes 3.29 rather than 3.19.

Harsh Shah: No. So I think first is that you are looking at quarter three FY '22. You should have been looking

at quarter three FY '23.

Vishal Doshi: No, so I am comparing the quarter three FY '22 versus quarter three FY '23. So suppose if my

quarter three FY '22 is not 3.19, if it is 3.29, if I compare it with 3.30, there is no 3.5% year-on-

year increase in the distribution per unit?

Harsh Shah: Correct. But quarter three, you are saying quarter three FY '22, 3.19, you are comparing with

what number? Sorry, I am...

**Vishal Doshi:** 3.3, quarter three FY '23.

**Harsh Shah:** Correct. So 3.2 versus 3.3 is about 3.5% increase. Is that right?

Vishal Doshi: Yes, but that 3.2 is exactly 3.29. See, is it possible for someone in the office to maybe open the

presentation and make.

**Harsh Shah:** Certainly, I can look at it. Because you are saying that 3.11 plus 0.1863.

**Vishal Doshi:** It is 3.29.

Harsh Shah: So, I can tell you that there seems to be an error here. 3.19 is sacrosanct because that is what we

distributed as total.

**Vishal Doshi:** But if you total these two items then it is 3.29.

**Harsh Shah:** I understand, That is why I am saying there seems to be an error in FY '22, disclosure of 3.11

and 0.1863. Give us a minute, we have Divya with us, she will just check in a second.

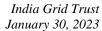
Vishal Doshi: So obviously you have correctly inferred my second question. There is a rise in the capital

repayment. So I just wanted to understand, although we understand that there is some sort of an EMI schedule value the loan gets repaid, your interest component gets decreases. Although you are still maintaining the maybe same level of the distribution per unit, but in terms of the interest, I just wanted to pick up your thoughts. Is there a possibility to have the higher interest income and maybe in a similar fashion if you at the same time you want to have the objective of maintaining the constant distribution per unit for next maybe say three, four, five, six as I

mentioned in the previous query?

Harsh Shah: So I'll just describe that in this there are two conceptual inaccuracies. Point one, comparing the

interest in principle versus an EMI is conceptually not a correct assumption over here. Because





99% of our assets are permanent assets. And the reason why the second is, it is second anomaly that it is not in our choice to decide what interest and principal. The income from InvIT, rather let say, income in the hands of InvIT are kept as a pass through and with that CBDT has required us to act the trust itself as a pass-through vehicle. And therefore whatever form and manner the SPV can give up the cash to the InvIT, right, is the same manner in which IndiGrid needs to give it back to investors.

So now what happens? In some of the SPVs, let's say there is more EBITDA than the interest that you can charge. So the residual EBITDA comes from SPV to InvIT in form of principal repayment and therefore the InvIT needs to also provide that as principal repayment to investors. Now this is not a repayment of your capital. There is no pass value over here. This is just a manner in which the money is being transferred to SPV to InvIT and InvIT to the investor. The whole reason to choose the trust as a vehicle was to provide this ability because in companies you cannot do this to give it to investors. You cannot take out the capital repayment away to owners of the business. And that is the conceptual change that is why we have chosen trust.

So one clarity I would like to provide that it is not in our hands. It depends on we have 14, 15 SPVs, every SPV's capital structure is different. Depending on that they will give up some interest, some dividend, some principle, we just add it up at InvIT, make adjustments and distribute. It is not in our ability to change that. So that is one.

Second is, conceptually, this is not really capital given asset value, a day before the principal repayment was also the same, today is also the same. It is just a mode in which the money is passed to the investor, because we have chosen trust as a platform. As a government has chosen trust as a legal entity. So I think there is a, this is firstly we need to check this 3.19-plus that, certainly we take that view, I think you are right on that, we will just double check and get back on that. But the second conceptually is that principal repayment is just a mode in which the money is passed on to unit holder, not a conceptual repayment of capital.

Vishal Doshi:

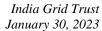
If I may allow maybe second question or relating to the same thing. Should I go with the second question? Can I go with the second question please?

**Management:** 

Yes, okay.

Vishal Doshi:

So I also see that you have actually parked some INR 63 crore as not been a distribution and parking it as reserve. The reserve balance has increased to INR 217 crores, cumulative. So I do understand that it will be for some future acquisitions or for some future planning or maybe pay out or stability point of view. When I see the slide number 15 with respect to the same and see the chart maybe you can just help us in understanding the same? FY '24 and FY '25 onwards, the DPU line is again 13.20. So if you can maybe throw some light because you have the results of INR 217-plus crore, as I said in the previous question that you might have an extra EBITDA because of the acquisitions to the tune of around INR 85 crore. So how does that actually really





pan out which we are not able to see in the slide number 15 on guideline or the framework for the distribution per unit?

Harsh Shah:

Okay, so very long analysis, but let me describe what I understood then you say yes or no and then I can answer. Your question is that you are earning X DPU today with a set of assets. If you acquire these assets and earn Y DPU which is higher than the X and you might have to increase the DPU, but in the slide number 15, there is a chart according to them there is FY '24 onwards, DPU is going up or can go up. So how does this tally with each other? Is that the question?

Vishal Doshi:

Yes. And there was just one missing point was that you have the surplus reserve of INR 217 crore, which is yet to be distributed.

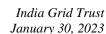
Harsh Shah:

Understood. Got it. So first question let me answer on surplus. Surplus has many uses. Surplus is used to stabilize, surplus is used to keep liquidity for acquisition, surplus is used to fight against volatility sometimes. So it's a variety of uses for the surplus that we have flexibility to use. We think that the surplus is extremely useful. And we have seen that in two occasions, many occasions to be honest. But let's say the first occasion is in the COVID first quarter.

While our business was doing fine, we were confident on our collection. But for that one quarter, quarter one of FY '21, there was a dip in collection because nobody went to office. So what do you do? So then we could dip into our reserves and pay from that. In quarter two or quarter three onwards, we recovered and then there was no issue. So it is an important tool for management to be able to provide you predictability. So that is one.

It can be used in varieties. I would not include reserve in this analysis. What we do is in this analysis, now coming to slide number 15, we calculate that if we do not do anything and we just keep refinancing some of our liabilities and keep on operating the asset as is with the number of assets that are in our hands, how does the DPU profile look for next five, 10 years. Now, if you look as on FY '23, where we are given 13.2, so if you do not do anything, the red curve was continuing. So, if you do not acquire any assets also, 13.2 was fairly robust and ongoing, not an issue.

Now, we acquired or rather let us say, we assigned to acquire right now is three assets, different point in time. So, at some point in time in FY '24, FY '25, there is going to be sufficient incremental NDCF that might get generated which we have to distribute to the unit holder. Now when it happens, how much it happens within the 10% criteria also say, we need to maintain that. It's a model that we run and we say okay, if your NDCF is more than let's say, 90% NDCF you have to distribute and if we have sufficient cash that we have earned, sometimes you may have to increase DPU, but it gets modeled every quarter, post results, post cash and post NDCF. So this is more for an indication of how if somebody was to model our entire tariff curve which are published in valuation reports, someone might read similar analysis. It is more a guideline. It is not an accurate prediction in which quarter and year the DPU will go up.





**Moderator:** 

Our next question is from the line of Sunil Shah from Turtle Star.

**Sunil Shah:** 

Welcome, Harsh. Always good to hear you, Meghana and everybody on the call. Thank you so much for this call and everything that you shared. It's nice to have the slide 15 back in the presentation deck. Now, what I understand is the slide 15 is indicating all the assets which are reasonably in place and which are more or less in the framework side as well, barring the new three assets. So the MOU which we are going to sign off, those assets are completely going to be future and is still not at all captured or envisaged in the slide 15. Is my thinking clear on this?

Harsh Shah:

Yes. The thinking is right and that's what we are not putting anything for which we have not signed agreements or a confirmed bid or things like that. This is based on, the orange line is based on exactly the rights of Kallam and KTL.

**Sunil Shah:** 

Yes, so that's completely visible to us and so that's what it is, right?

Harsh Shah:

Yes

**Moderator:** 

Our next question is from the line of Rajan Patadiya, an individual investor.

Rajan Patadiya:

I would like to congratulate for your yield accretive acquisitions. My question is this. The acquisition that we are going to do worth INR 1500 crores for which I have read the valuation report. We are acquiring it around 8.5% ROI. What will be our cost of interest for that? Because if there is a little increase in rate of interest, it will not be that much yield accretive? Can you please throw some light on that?

Harsh Shah:

Correct. I think it is a very important question and clarification. So it is good to have this question. The 8.5% that you may be referring in the valuation report is WACC and it is not our rate of interest or cost at which we are buying. What the valuation report does is calculates the WACC takes the tax of 20% or 25% whatever is applicable and reduces the EBITDA of the project to come to the value. So therefore the 8.5% which is there as a WACC discounts the cash flow after removing 20% tax from there. Whereas in reality we don't pay 20% tax. So if one was to calculate what is the rate of interest or the way you are trying to compare, you should just use discount rate to come to the FMV that is there without tax impact and that number will be higher than 8.5% for FMV calculation.

So coming to the interest side, I think agree your point. So if I were to describe this, is it as a spread at a cost of debt versus at the rate at which you have discounted the cash flows? The spread between them is sizable higher. The moment you look at it, from an EBITDA discount perspective. So we will have a good amount of spread between our cost of debt and the rate of discounting at which we have purchased. So I don't see it as an impact coming on us substantially. And again, we are using the current cost of debt and capital, which is at, I would say, I won't say peak, but at an elevated level of interest rates.

Rajan Patadiya:

Yes, definitely not at bottom.



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Harsh Shah: Yes, definitely not at bottom, correct. So I think even at this rate there is sufficient cushion in

terms of further variability and we will still be accretive on this acquisition.

Rajan Patadiya: And what will be our borrowing capacity left after this acquisition?

Harsh Shah: I think earlier somebody asked that question. There would be significant, now I don't have the

exact number but one can calculate but anywhere from INR 2,000 crores to INR 3,000 crores as

we reckon. So it's a sizable amount.

Moderator: Thank you. That was the last question for today. I now request the management team to add a

few closing comments.

Harsh Shah: Thank you. And thanks a lot for hosting us and thanks all the investors to join the call. And we're

really happy about the questions that have come to us, very important ones. And I think I also recognize one of the questions which was about an error on the DPU breakup for FY '22 which we will correct. But other than that, I think very important question. We are glad that our investors understand our business so well. They understand the values by which we are living, the flexibility like keeping reserve with us and doing creative acquisitions. All of it, that courage comes from the fact that our investors understand the business very well, and they do show

confidence on how we are running the assets. So thank you, look forward for the next call.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes this

conference. Thank you for joining us and you may now disconnect your lines.