



“India Grid Trust

Q1 FY '24 Earnings Conference Call”

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MODERATOR: **MR. SUSHIL DHOOT – NUVAMA WEALTH
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Moderator: Ladies and gentlemen, good day, and welcome to the India Grid Limited Q1 FY '24 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sushil Dhoot from Nuvama Wealth Management. Thank you, and over to you, sir.

Sushil Dhoot: Good afternoon, friends. So on behalf of Nuvama Wealth Management, welcoming all to the India Grid Trust in its first quarter FY '24 conference call. We are joined today by the senior management of India Grid, represented by Mr. Harsh Shah, CEO and the Whole Time Director; Mr. Navin Sharma, Chief Financial Officer; Ms. Meghana Pandit, Chief Investment Officer; Mr. Satish Talmale, Chief Operating Officer. So we'll start with the opening remarks with the management, followed by a Q&A session.

I would now like to hand the call to Harsh sir for his opening remarks. Over to you, sir.

Harsh Shah: Thank you, and thank you, everyone, for joining on the call today. We had a good beginning of the financial year, and I would like to take you through the presentation first, and then we'll be happy to address any questions on the presentation and the results.

On the slide number three of the presentation, we reiterate our vision. Our vision is to become the most admired yield vehicle in Asia. And we believe that with a focused business model, value accretive growth, predictable distribution and optimal capital structure, we'll be able to achieve that.

On the next slide, slide number four, is a portfolio overview at IndiGrid that we have today. This does not include the recent acquisition that we have signed up for. And then this represents the current portfolio of IndiGrid assets. So we have about INR22,900 crores of assets under management across 19 states and UT, about 8,500 circuit kilometers and 17,500 MVA transformation capacity.

Coming to the quarter 1 FY '24 highlights on page number six. We completed our sixth year of value-accretive growth and sustainable distribution and best in class governance practices since listing. It's our sixth anniversary for IndiGrid in this quarter, and we are proud to have delivered superior risk adjusted return to unitholders over the last 6 years since listing. We signed for Virescent Renewable Energy Trust last quarter and announced the details for unitholder vote. The transaction closure process is underway. We received unitholder approval as well as SEBI approval. And we are targeting closure of the transaction sometime in the last week of August '23. We also received both unitholder approval and subsequent SEBI approval of the declassification of Sterlite Power Transmission Limited as a sponsor. In addition to the above three, we have received and started work on several augmentation projects, which are allotted to us on a regulated tariff mechanism across four of our substations in Kallam, Patran, Prithla and Amargarh, and that's something which we have started capex.. Financially, as we increased the DPU growth last year, last quarter, we have continued with that and we are distributing with a

run rate of INR13.8 a unit. And we were able to do it with our revenue and EBITDA both increasing around 11% to 12% versus last year. Collections are at 86% in line with usual quarterly trends.

Typically, the quarter 4 is higher and quarter 1 is marginally lower. Our AUM stands at INR22,900 crores with a net debt to AUM at 60%, which is well below the 70% cap provided by SEBI. On operating performance, our average availability is at 99.5%. Solar CUF of the small portfolio that we have is around 28.05%. And there is a temporary impact on availability in NER due to some insulator flashovers and I'll discuss that in subsequent slides. All-in-all, it's been a robust performance, which has allowed us to deliver a sustainable DPU of growth that we promised last quarter.

On slide number seven is about industry update. The power demand continues to reach past peaks and it is again, one of the highest power demand that we've seen in the country. And we are confident that with growth in GDP as well as the electrification initiatives that have been done in the last 5 years. We do see this power demand growing on year-on-year basis. Forecasting this consistent growth in the power consumption, there has been a lot of development on the transmission side, which are part of the National Electricity Plan, which was notified by CEA, which provides short-term framework, provides capacity additions both in the grid as well as the storage.

It provides measures to have RE available for 24/7 through BESS and pump storage. So all of this has translated physically into about INR1.4 lakh crores of TBCB bids in the sector that we are seeing in the near future. And these are identified projects which are approved by NCT. And therefore, we think that this is going to result into a sizable pipeline for transmission business.

On the slide number eight, which is just to provide an update on how IndiGrid would look post Virescent acquisition. So as an update, as I mentioned earlier, we received the approval from unitholders on June '23. On July 2023, we have received SEBI approval for closing this and August '23, we are targeting to close this transaction.

With this transaction, IndiGrid AUM is almost going to grow up to around INR27,000 crores. The watt mega peak capacity will grow almost 538 to 676 watt-peak. And number of employees will also substantially grow because we are taking over most of the employees of Virescent, which will allow us to operate the portfolio smoothly. And in general, number of projects are almost doubling to what we had earlier. So in general, it is a substantial growth that's taking place at IndiGrid AUM.

Coming to quarter 1 FY '24 for operating performance, I would like to invite Satish to brief you on that.

Satish Talmale:

Yes. Thanks, Harsh. Good afternoon, everyone. So for quarter 1 operations performance, we achieved zero fatality for the quarter, and there were some minor incidents towards first-aid medical treatment, which are part of our continuous improvement program to achieve our Zero Harm mission. On performance on power transmission, we achieved more than 99.5% availability across the portfolio. Solar generation, this is relatively 6% higher generation

compared to last year, which is at 61.26 million units at a 28.05% CUF. On NER, particularly, if you see there is a slight dip on availability that is due to insulator issue, which we understood the root cause and we are trying to mitigate that in next quarter. On reliability, we achieved 0.24 trips per line.

Generally, in Q1, the number of trips due to weather-related events are higher, but still due to all the reliability improvement measures, we achieved a lower score compared to last financial year quarter. Few technological initiatives we have initiated in our process to implement remote access server technology installation across our substation and also automatic fault analysis system, which will help us to troubleshoot all the faults in a timely manner and even help our ability to restore trips in a most efficient manner.

On solarization, we installed a small capacity in Bhopal and Dhule substation along with battery storage. We are also targeting to solarize all other substations and we are planning to implement those in coming quarters. On cybersecurity, there are no material threats which are identified and recorded by our 24/7 security operations center.

Yes, that's it. I will now hand over it to Navin for next slide.

Navin Sharma:

Thank you, Satish, and good evening, everyone. We are on slide number 10. Good quarter with robust performance as compared to the same quarter previous year. We have recorded a revenue and EBITDA of INR629 crores and INR567 crores, respectively. This translates into 12% and 11% Y-o-Y growth. NDCF generated for the quarter was INR173 crores, and Board has approved a distribution of INR3.45 per unit, which is in line with our guidance and this translates into a DPU growth of 5% on Y-o-Y basis.

Coming on to the collection for the quarter. It stood at 86% as compared to 79% collection in Q1 of FY '23. Historically, Q1 collection remains a bit low after a superior Q4 collections. In Q4 FY '23, collections were at 114% level, which translates into 100% collection over last 2 quarters. The DSO as of 30 June stands at 66 days, which is similar to Q1 FY '23 DSO.

Coming on next slide number 11, DPU for the quarter is INR3.45 per unit. It will be distributed in the form of interest, dividend and capital repayment, which is INR3.18, INR0.06 and INR0.21, respectively. The outstanding units at the end on the quarter is around INR70 crores and the gross distribution to all the unitholders at INR3.45 comes to INR242 crores. Record date for the distribution is August 3, and tentative date by which the unitholders will receive a distribution is August 12.

NAV as of June 30 stood at INR130.5 per unit. Over this quarter distribution, IndiGrid would have distributed INR75.31 per unit with a total distribution of around INR4,130 crores. On the right-hand side, we showcase the kind of distribution on Y-o-Y basis, which is stable and scalable growth of 3% to 4% over the year. We are on track to meet this year's guidance on distribution of INR13.8 per unit.

Turning on the next slide number 12, which showcase a waterfall summary of our EBITDA to the NDCF generation and distribution. At an SPV level, we have a consolidated EBITDA of INR573 crores. Net of the finance costs, working capital movement, capex and taxes at SPV

level, NDCF generated at SPV comes to around INR479 crores. The net of the interest level expenses, interest costs and tax, we have generated NDCF of INR173 crores. As we started off the healthy reserve of INR322 crores, we have utilized our reserves by INR68 crores, and our closing reserves stand at INR254 crores, which is in excess of one quarter's DPU basis current guidance.

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

Meghana Pandit:

Thanks, Navin. Hi. Good evening, everyone. I'm on Slide number 13, snapshot of our balance sheet. We continue to remain AAA-rated by all the 3 rating agencies. At the end of the quarter 1, our average cost of debt remains at a healthy 7.58% with a cash balance of about INR1,041 crores. This includes DSRA of around INR370-odd crores and about INR241 crores of distribution for the quarter and balance as free cash. Almost 83% of our overall borrowing book of INR14,600 crores is fixed rate to the extent of around at least 3 to 4 years. We ended the quarter with a net debt to AUM of 60.1% and again, very robust interest coverage ratio of more than 2x.

During the quarter, we drew IFC's loan of around INR1,140-odd crores at a cost of debt of about 7.7%. The borrowing book remains fairly diversified between bank loans of almost about 53-odd % and NCDs of 47%, which are subscribed by a diverse set of investors, including mutual funds, insurance companies, HNI, retail, corporate, provident funds, etcetera. The bottom chart talks about our repayment or refinancing schedule. For this fiscal FY '24, the refinancing number is close to about 3.5-odd percent of the overall book, very small. And the remaining year, as you can see, is very smoothly distributed with not more than 10% to 11% of the borrowing book coming up for refinancing.

Moving ahead on slide 14, depicts our risk-adjusted total returns that we are providing to the unitholders since inception. So our total return is close to about 109% and annualized return of 13%, which compared to both debt and equity indices continues to remain superior, especially on the risk side, if you compare with the Beta, we remain at the lowest 0.08.

Slide number 15, the business outlook as we look at it. So the first one, currently, we are focusing on completing the Virescent transaction. Along with that, the framework asset that we are looking at from GR Infra, Rajgarh, as and when it becomes operational, we will look to acquire that also. In addition to that, with the significant attractive transmission bid opportunities coming up, we will look at synergistic greenfield bidding across both transmission. Battery energy storage system is also an area that we are closely looking at. With the current guidance that we have provided on the DPU of Rs. 13.8, we continue to focus on that.

And post the Virescent acquisition, as we have mentioned before, we are looking to provide a 2% to 3% increase in the DPU after the acquisition is completed. Parallely, our focus on improving the balance sheet continues to exist in terms of optimizing the interest cost on all the incremental borrowing that we do alongside ensuring that the tenures remain pretty long. We have always focused on maintaining adequate liquidity to ensure any sort of emergencies that come about can be looked at. We have taken unitholders' approval in June to raise equity to the extent of INR1,500-odd crores.

And this was with an intention that after Virescent acquisition, our net debt to AUM would be somewhere about 65-odd-percent and with that in mind, we are looking to raise equity to the extent of up to INR1,500 crores, which will bring the net debt to AUM back to around 60% level. Parallely, asset management continues to be the focus with ensuring that the maximum availability is there across the portfolio. Self-reliant O&M practices continues and the EHS and ESG practices that we have adopted, we will continue to improve on that.

On the industry part of it, we continue to remain very active across various industry bodies and we are working on ensuring more and more private sector participation in the electricity sector, similarly on the national monetization pipeline. So we make representations across various industry bodies and improving investor education about specifically IndiGrid as well as InvIT as a platform continues to be the case.

With that, we'll take a pause here, and we can move to the Q&A session, please. Over to you, Sushil.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Shrish Vaze from Moneylife Advisory Service.

Shrish Vaze: My first question pertains to the agreement with GR Infra. So I just wanted to understand this framework agreement is only restricted to one asset or it will also extend to subsequent assets as and when they come up for acquisition?

Harsh Shah: So this agreement, – framework agreement you are referring to is only for one asset and subsequent to this asset, there will be different agreements depending on what is the arrangement for each bid.

Shrish Vaze: Got it, sir. And my second question pertains to, I just wanted to understand, are we also looking at metering infrastructure concessions to complement our current portfolio?

Harsh Shah: I think we keep evaluating different businesses and certainly metering in fact has become a large opportunity. Having said so, we are at a very early stage in evaluation of the same. And if it becomes interesting, we would pursue, but at this point in time, it's very early stage.

Moderator: Our next question is from the line of Usha Virendra from Acharya.

Usha Virendra: Your slide number 12 says the quarterly report of Q1. EBITDA to NDCF shows a reserve of INR681 Mn was used to distribute DPU. Am I correct, sir?

Harsh Shah: Yes.

Usha Virendra: So then what is the reason to dip into reserve?

Harsh Shah: Okay. So typically, what happens is that our collections, while they look very flat and maintaining 100%, on a quarter-on-quarter, they typically vary. So as Navin mentioned, last quarter, it was 114%, this quarter it was 86%. And therefore, on a quarter-on-quarter basis, quarter 1 is low, quarter 2 is a little higher, quarter 3 is little low and quarter 4 is high. That's what we have seen historically. So we keep a reserve about a quarter of distribution, which is

generated out of the 10% flexibility that SEBI provides, which allows us to streamline the quarter-over-quarter variability.

Otherwise, if it is 100% pass-through, there may be more volatility that may come into our distribution. So we keep this reserve. And then this reserve gets refilled when we receive our collection back on a quarter-on-quarter basis. So quarter 4, we added to the reserve; quarter 1, we are consuming; next quarter, we will see what the collections are and then reflect that. So the reserves are just amount that allows us to smoothen the quarter-on-quarter variability on the collection.

Usha Virendra: And sir, how is this acquisition being financed like loan or equity? I think I heard some equity portion.

Harsh Shah: Sorry, what is it? Can you repeat that?

Usha Virendra: How is the acquisition of Virescent being financed? How are you getting the funds?

Harsh Shah: So acquisition of Virescent will be a mix of equity, debt and internal accruals, all three put together. In the shorter term, we might raise debt and then repay with equity as we raise it. So it's going to be a mix of all.

Usha Virendra: Okay. So do the current unitholders get to apply for any rights or something, something like that?

Harsh Shah: If we come up with a rights issue as a mode of capital raising, yes, unitholders will get a right to apply.

Moderator: Next question is from the line of Pradyumna Dalmia from Lansdowne Investment.

Pradyumna Dalmia: I just wanted to understand more and if you could elaborate a little more on the INR1,500 crores capital raising plans. What are the timelines, etcetera, that you have in mind for this? And what is likely to be the debt and equity split of this?

Harsh Shah: So just to clarify, the INR1,500 crores is the unit capital raise. So it's entirely equity. In terms of timeline, I think it's difficult to communicate what timeline will it be, but we are evaluating all options, including what earlier unitholder asked about rights issue, preference issue and institutional placement.

This specific approval that we have taken was for institutional placement. And each capitalization method has its own nuanced advantage or shortcomings. So we are evaluating that. At this point in time, we don't have, I would say, timeline to conclude that. It's kind of an approval we have taken, but we'll keep evaluating.

Pradyumna Dalmia: Okay. So you cannot comment at this stage whether this will be completed in this quarter, next quarter or FY '24 at least?

Harsh Shah: Yes. We cannot commit to that, but I think the approval that we have taken is valid for a year so.

- Pradyumna Dalmia:** Okay. And you will obviously make the necessary announcement, etcetera, as and when you do decide which route you're going to take?
- Harsh Shah:** Certainly.
- Moderator:** Next question is from the line of Pratik Kothari from Unique Portfolio Manager.
- Pratik Kothari:** Congratulations Harsh for the increased DPU. Harsh, my first question is on we signed an MOU with GR Infra and we're trying to bid for some greenfield I mean, they will do the construction, but then we'll acquire from them. Similarly, you spoke about a large bidding pipeline which might come out. So just if you can highlight how are things moving on ground? What kind of deals do we see? What kind of deals are we currently going through?
- Harsh Shah:** Sure. So I think as I described, there is a big pipeline with respect to the development pipeline in terms of number of bids that are getting bid out. It's, to be honest, unprecedented number of capex that is getting planned in this sector. We do see a lot of bids getting participated in that. Now we are not a pure-play developer, and therefore, we participate in bids where we have some synergies.
- However, having such a large pipeline helps that we can target on the projects that we want to work on. On the renewable side, also, we do see good traction in terms of several transactions. We are evaluating them. But at this point in time, we don't have anything to announce or anything signed, but we do see both on operating renewable side and on the construction transmission side, a lot more opportunities coming in.
- Pratik Kothari:** So when we speak about this heightened bidding which was come in. So is it the existing players who want to lighten their balance sheet to participate in this and hence will get an opportunity to acquire those assets or do we participate along with this for the new bidding and we acquire those assets 2, 3 years down the line?
- Harsh Shah:** I would say it's a mix of both. We won't bid for all projects, isn't it? In the development stage, we have limits in terms of maximum 10% of our size. So we don't bid and we are far more conservative than a normal developer. So our target assets are slightly different and specific, we don't participate in all bids. But we do see both happening that people who might want to offload assets to build new assets as well as we might find some good opportunities in the building side, so both.
- Pratik Kothari:** And that has already started playing out?
- Harsh Shah:** Yes,. So the number of bids that we announced, I mean, in the call, INR1,40,000 crores, they're already identified bids with bid process coordinators to be conducted in the next 1, 1.5 years, maybe 2 years. So that's already identified. It's a matter of time in terms of when they will be bid.
- Pratik Kothari:** Correct. Fair. Sure. And post this Virescent acquisition like you mentioned in the next month itself, our AUM share of that or solar goes to 17-odd percent. So for the time being at least now this would be the cap on non-transmission asset, given we always wanted to keep it below 20%?

- Harsh Shah:** So the cap is 25%, where we are working towards. But I mean, as you said, we are -- within the cap, we are agnostic. If we get a good solar project at a good value and good quality, we don't mind buying it right now also. So the cap we are working towards is 25%, but 25% is not the goal, right? The difference is not the goal, but that's the cap. So I won't say we are capped at 17%.
- Pratik Kothari:** Correct. And I believe you include battery energy storage as part of transmission. So in non-transmission except solar, what else can be a part of that?
- Harsh Shah:** I mean we haven't done anything till now. But hydro is part of it, wind we are not doing for sure. But they are pretty much it remains in the sector. I mean, somebody asked me about smart metering, which could also be but that's very small and very early stage. So it could be any of these two, three things.
- Moderator:** Next question is from the line of Vivek Surekha, an individual investor.
- Vivek Surekha:** Am I audible?
- Moderator:** Yes you are.
- Vivek Surekha:** So first to clarify in the opening remarks, you mentioned that DPU will grow by 2% to 3% post the acquisition of new assets. Is this after equity dilution or is it before equity dilution?
- Harsh Shah:** The guidance is after equity dilution. And again, it is a guidance so depending on when we acquire and all that variation, the signing of the month may change, but yes, it is after equity dilution to your question.
- Vivek Surekha:** So that's fair enough. Another request, right, in last two presentations on the quarters, you were giving a kind of flow of how the distribution will work over the next 3 to 5 years. This presentation that view was taken out, the view was very helpful. Can we include that view in our presentation if that's not the big thing for the management.
- Harsh Shah:** Yes. I mean it's not a big thing. It's a standard slide, which hasn't changed -- I mean, this quarter is largely around the current changes quarter update slide. And typically, we add that slide when we acquire a new asset, right? So to give a perspective. So even if you download that slide which we published in last presentation, it still holds true, right? But it's a good input we'll definitely consider to include it subsequently but it remains the same, what we published earlier.
- Vivek Surekha:** That would be helpful. Just one last question from my side. Looking at all the kind of monsoon which is happening across the country, have we seen any adverse impact on our side, hopefully not, but it is coming and are we well covered by insurance on that?
- Harsh Shah:** So the question is valid. We do see -- I mean, not just fortunately to start with, we are not impacted by the floods that we have seen in Himachal and other parts of the country. I mean, we are fortunate around that. On the impact of the seasons, every season there is some kind of impact that comes in. Sometimes it'll snow, in the quarter 1, technically from quarter 2, there are high

winds in the Central India; in quarter 2, in quarter 3 quarter, there are rains in the northern and western India. So variety of impact that comes in.

But I don't think that is material enough to impact our stability or I would say, operations. There is one impact that Satish spoke about NER project, where we are dealing with a specific issue with respect to insulators, and especially that is in the hilly terrain in monsoon, which makes it difficult to restore. But those incidents keep happening across the portfolio. We're not really materially impacted by that. And whenever it's significant or slightly important, it comes out in availability as it has in this quarter.

Moderator: We have our next follow-up question from the line of Pradyumna Dalmia from Lansdowne Investment.

Pradyumna Dalmia: No, I just had one clarification which I wanted to ask. I believe there has been some recent changes in terms of the treatment of taxation on InvIT and REITs. Can you clarify on that? And is distribution by way of interest and dividend, are they kind of taxed the same currently or is there any differential now whereby one maybe more tax beneficial versus the other?

Harsh Shah: So I will give you our perspective, but I would advise you to refer to the tax adviser because each investor category gets taxed differently based on their status and jurisdiction and other things. But at the high level, there is, as such, no change that has taken place with respect to the taxation of InvIT. There was an amendment that got introduced in the budget and subsequently it got streamlined, and that was pertaining to capital repayment and not with respect to interest and dividend.

And with respect to capital repayment, what is clarified is that as long as InvIT or REIT has distributed up to the capital it is issued, so let's say, IndiGrid was issued at INR100 till the point in time IndiGrid repays a capital repayment is up to INR100 a unit, there will not be a TDS and it will go out of the cost of acquisition of the unitholder and therefore, taxed as capital gains, not immediately, but as and when the unitholder sells.

Other than that, and let's say beyond INR100 if somebody pays capital repayment and IndiGrid scenario is extremely unlikely, but some REITs are offering, then it will be taxed marginally like other income or interest. That's the only clarification that has come in this budget. Other than that, it remains what was last year. Interest is taxed based on marginal income. Dividend, if we have received the dividend from subsidiary, which is under old tax regime, then it remains as a tax-exempt dividend. If the SPV follows a new tax regime, then it remains a taxable dividend, again, part of financial income, just like interest. So there are 3-4 categories that exist. And therefore, we disclose all of them in a detailed manner in our distribution sheet so that it allows people to consult with the chartered accountants.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for the closing comments.

Harsh Shah: Thank you. So I think we had a very action-pack quarter last quarter with a large transaction, and we are still working towards closing that. And we look forward for the continued support from all our unitholders who have consistently supported the decisions taken by management

both on asset acquisition and capital raising and others. So very thankful and grateful to all of you to join today, and look forward to meeting you at the next conference.

Moderator:

Thank you. Thank you. Ladies and gentlemen, on behalf of India Grid Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.