



“Torrent Power Limited
Q2 FY2023 Earnings Conference Call”

November 11, 2022



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Moderator: Good morning ladies and gentlemen, welcome to the Torrent Power Limited's Q2 FY2023 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Lalit Malik, CFO, Torrent Power Limited. Thank you and over to you Sir!

Lalit Malik: Thank you very much. Good morning to all of you and thank you for joining earnings call of Torrent Power for Q2 FY2023. First I will take you through the performance of the quarter after which phone lines will be open for questions and answer session. We will explain the performance of the company at PBT level first and we will take tax expense separately thereafter. Reported PBT for the quarter stood at Rs.725 Crores as compared to Rs.485 Crores in the corresponding quarter last year with increase of Rs.240 Crores that is 49% on the reported basis. There are no non-recurring items in both the current quarter and corresponding quarter of the last year.

I will now take you through key highlights on improvement in the PBT by Rs.240 Crores for the current quarter. The improvement in the operating profit is mainly coming from (1) improvement in profitability of gas-based power plants mainly on account of two factors. First is net gain of Rs.155 Crores coming from the sale of LNG, which as discussed in the earlier call with elevated LNG prices it makes commercial sense to sell LNG instead of converting it into electricity. And second is gain of Rs.40 Crores on account of lower depreciation charge in DGEN on account of one time impairment charges taken in Q4 for FY2022 and reduction in depreciation rate in SUGEN, therefore in total including above major factors profitability of the gas-based power plants improved by Rs.194 Crores.

Moving on to performance of distribution business pursuant to restoration of industrial demand which was impacted last year due to COVID-19 pandemic there was marked improvement in overall contribution from the distribution business by Rs.90 Crores major factor of which are as follows. First is a gain on account of reduction in T&D losses of Rs.51 Crores. Volume and rate gain from franchisee business of Rs.14 Crores and higher ROE and incentives in licenced distribution of Rs.25 Crores. On the other hand renewable business of the company witnessed a decrease in PBT mainly on account of lower PLF in its wind project amounting to Rs.32 Crores which was partly offset by profit booked on account of acquisitions consummated during last two quarters amounting to Rs.9 Crores, therefore in total profitability of renewable power plant reduced by Rs.23 Crores.

Next is with regard to finance cost, increase in finance cost of Rs.34 Crores which is mainly due to increase in the average borrowing by approximately Rs.2000 Crores. Other

miscellaneous gains of Rs.14 Crores mainly coming from increased contributions from coal-based plants and other miscellaneous gains. Moving on after tax numbers consolidated profit after tax reported for the quarter is Rs.485 Crores as compared to PAT of Rs.367 Crores reported in corresponding quarter last year which is higher by Rs.118 Crores which is contributing to 32%. This is all about the financial performance of the company during the quarter.

Now moving on to operational performance of the company distribution business witnessed a marked improvement in the overall demand and surpassed the pre-COVID level that is Q2 FY2020. Demand during Q2 FY2023 has increased by 5% as compared to corresponding quarter of the last year and also as compared to Q2 FY2020 of pre-COVID level. The growth was driven by elimination of COVID impact and consequent normalization of industrial and commercial activities. This completes the overview of the quarterly financial and operating performance of the company.

Now we will move on to give you a brief update on current projects which are as under. 115 MWMW SECI-V project with SCOD of September 2022 is likely to get commissioned by end of December 2022. The request is submitted to SECI for SCOD extension till December 2022. Next SCOD of TPLD's 300 MW solar project has been recently extended up to August and October 2023. Next is 300 MW SECI-XII wind project which was one by the company during Q1, LoA of the same has been received and PPA will be signed in due course. Discussions have been initiated with few EPC contractors for implementation of the project. That is all for this quarter. Now I would request coordinator to open the lines for Q&A session. We wish everybody to stay safe and healthy. Thank you. Now we hand over to the operator.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Swati Jhunjunwala from VT Capital. Please go ahead.

Swati Jhunjunwala: Thank you for taking my question so Sir my first question is the power prices have been high in Q1 and Q2 so what is the outlook like going into Q3 and Q4?

Saurabh Mashruwala: The price of power for gas is higher compared to the last year so if you have noticed in Q2 we have not operated the plant significantly means PLF is hardly 7% for SUGEN and UNOSUGEN so we are awaiting the price to stabilize, once the prices stabilize we will procure the gas and then operate the SUGEN and UNOSUGEN plant. At the same time the recovery of fixed costs is continuing in SUGEN and UNOSUGEN projects so the profitability is not going to be impacted as far as SUGEN and UNOSUGEN project is concerned.

- Lalit Malik:** So prices will continue to remain on the higher side in the short duration although in the coming next year perhaps the prices may look for downward trend unless there is some other unpleasant actions take place but otherwise currently the prices are expected to remain at the similar level in the short term.
- Swati Jhunjunwala:** Okay and second question is the Section 11 agreement that the government has enforced right now is it valid till December 31, 2022 if I am not wrong so after that do we see any impact on our operations on account of PPA has not been signed or the power agreement is not happening?
- Saurabh Mashruwala:** It would not have an impact on us.
- Swati Jhunjunwala:** Okay the next question is what is the regulated equity as of September?
- Rishi Shah:** We do not look at September regulated equity, it typically happens every year so we generally look at on a year-on-year basis.
- Swati Jhunjunwala:** The capital expenditure what are we planning for the second half for the licensed distribution?
- Lalit Malik:** For the licensed distribution we are expecting somewhere to the tune of Rs.400 plus Crores of capex in the second half since we have already completed almost Rs.783 Crores in the first half.
- Swati Jhunjunwala:** Okay and could you give me the EBITDA breakup for the gas and the renewables and the licensed and privatized businesses?
- Saurabh Mashruwala:** I am giving the Q2 number for gas based it is Rs.351 Crores, Renewable is 253 Cr, Licensed distribution is Rs.397 Crores, franchisee is Rs.290 Crores and overall EBITDA is Rs.1261 Crores.
- Swati Jhunjunwala:** Rs.1261 Crores is that correct?
- Saurabh Mashruwala:** Yes.
- Swati Jhunjunwala:** Okay thank you so much for my questions.
- Moderator:** Thank you. The next question is from the line of Nikhil Abhyankar from DAM Capital. Please go ahead.

- Nikhil Abhyankar:** Thanks for the opportunity and congrats on a good set of numbers. Sir in the recent past big ticket projects were announced and which are likely to land up in Dholera SIR and these projects are mostly power intensive so what kind of power demand growth do you expect in the medium term?
- Rishi Shah:** You are talking about Dholera SIR?
- Nikhil Abhyankar:** Yes?
- Rishi Shah:** So Dholera SIR right now some industries are coming up so as of now there is not much of demand it is mainly for the construction demand which is there and that too not very high so ramp up will take some time in that area.
- Nikhil Abhyankar:** I was specifically talking about the Foxconn and Vedanta semiconductor deal and also lithium ion battery plant for Tata Chemicals?
- Rishi Shah:** Tata Chemicals plant I think it is under construction or work has just started so as of now giving an outlook for power demand would be very difficult.
- Nikhil Abhyankar:** Our receivables have increased to Rs.29 billion?
- Saurabh Mashruwala:** So I can give you the update about the receivables. Receivable has gone up because of the incoming new business coming in like Daman and Diu which was not there as on March 2022 which has receivable coming in about Rs.500 Crores receivable is new receivable added in the business. Then as you noticed we have significantly sold RLNG in the course of the quarter about Rs.300 Crores receivable is on account of RLNG which was not there as of March 2022. Our distribution business normally have higher receivable as on September as compared to March number so about 350 Crores of receivable has gone up in distribution business as of September which will come down during the H2. Some new renewable projects were also added which was not there as of March 2022, so all put together has increased the receivable levels as of September 2022 as compared with March 2022.
- Nikhil Abhyankar:** Understood. Those were the primary two questions. I will get back in the queue. Thanks.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar from DAM Capital. Please go ahead.
- Mohit Kumar:** Good morning Sir. I believe that there were a couple of meetings held in the quarter for resolving the gas issue so have you heard anything from the government do you think

something is possible in the medium term and does the ancillary market start will help our power plants to get the schedule?

Saurabh Mashruwala: During the last one year the government has held a couple of meetings so they are working with the solution to provide affordable gas to power projects but it is work in progress I would say at this moment.

Mohit Kumar: Another thing on the ancillary markets you are hearing which will help our power plant to have higher PLF?

Rishi Shah: Sorry Mohit we lost you. You are saying ancillary markets?

Mohit Kumar: Yes.

Rishi Shah: What do you mean by ancillary market?

Mohit Kumar: You are supposed to start somewhere I think CERC is supposed to come with the regulation so are we expecting have you heard anything on that and can we expect a higher scheduling for our power plants once that market is up?

Rishi Shah: Nothing as of now.

Mohit Kumar: What I am saying is the fixed asset, fixed asset plus CWIP has seen a material increase from March 2022 so can you please help how much has been added from Daman and Diu and how much is from our capex?

Saurabh Mashruwala: Licensed distribution in H1 has added Rs.783 Crores and franchisee has added Rs.105 Crores, renewable has added about Rs.550 Crores kind of a thing so these are the breakup because of which the fixed asset plus and CWIP has gone up.

Rishi Shah: So there is not much in Diu and Daman.

Mohit Kumar: Understood. Thank you Sir. Best of luck.

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

Rahul Modi: Thank you for the opportunity Sir. Sir can you just elaborate a little on how the demand that you mentioned has been improving and is better versus the pre-COVID levels especially in Agra and Bhiwandi how has the demand trajectory been and what is the sustainable growth from the current base that you expect over the next three to five years?

Saurabh Mashruwala: See as we explained in the call demand has crossed the pre-COVID level and it has reached at an average level of 5% to 6% growth that is what we can predict and it all depends on the industry, how the industry will be going forward but in normal circumstances it is 5% to 6% growth we can see in the demand in all our distribution areas.

Rahul Modi: Also can you elaborate on the bid on renewables that we had at solar for the 1.99 tariff any progress there and there were some recent changes in the solar import duty structures some concessions we were getting how is that impacting us?

Saurabh Mashruwala: As we explained earlier we are awaiting the price to come down solar panels, which is around currently it is at 26 to 27 cent, once the prices are on a reasonable level we can implement the project. As far as the duties are concerned it is change in law condition so it is passed through so it would not impact any of the solar projects.

Rahul Modi: Thank you Sir.

Moderator: Thank you. The next question is from the line of Amit Bhide from Morgan Stanley. Please go ahead.

Amit Bhide: Thanks for the opportunity. Sir I wanted to ask you on your renewable EBITDA, renewable EBITDA per unit has gone up from nearly 3.8 per unit to near about 4.6 now so what is driving this improvement in renewable EBITDA per unit and what should be the sustainable number that is one and second on this solar project that was for Rs.1.99 I think we were looking at impairing this project, right that project we not continuing am I correct on that?

Saurabh Mashruwala: No, we have already provided the amount. If you recollect last quarter we have over Rs.10 Crores in the books of accounts so no further provision is required for this project.

Amit Bhide: That project is surrendered right we will not be continuing with it?

Saurabh Mashruwala: Not yet surrendered, but on a conservative basis we have made the provision of Rs.10 Crores. As far as your questions on the renewable margin, so we do not actually figure it out how you calculate number, but we have added the new projects during the H1 so that is what the impact you may have seen.

Amit Bhide: It has gone up steeply like it is up 20% almost over 3.8% so what is changing?

- Rishi Shah:** Amit there are new additions also in the capacity through acquisitions so I hope you would have factored that. We can take it offline and we can look at the numbers out as being calculated and then we can take it offline.
- Saurabh Mashruwala:** Last Q2 it was 787 MW project, this year it is about 1060 MW project so capacity has gone up. If you factor the correct capacity I think you will get the answer.
- Amit Bhide:** Right sure, I will just get this better clarity on this later after the call. Thank you.
- Moderator:** Thank you. The next question is from the line of Sumit Kishore from Axis Capital. Please go ahead.
- Sumit Kishore:** Good morning. Thanks for the opportunity. Could you give the three to four year strategic roadmap for the company across the regulated distribution, franchisee and renewable business, if you could outline the capex plans over a three to four year period for these businesses and how is the landscape evolving, we are sharing about the electricity amendment bill, which is going to come up in the winter session and in renewables we are looking at high module prices currently, which is sort of impacting the outlook there I just like to hear your thoughts on the strategy for the company across business segments for the next three to four years? Thank you.
- Saurabh Mashruwala:** As we explained during the last couple of calls, as far as distribution is concerned we have our capex plan about Rs.1500 Crores for the next two to three years time, three years where we plan to invest about Rs.1200 Crores in our licensed distribution business, which will improve our ROE going forward and about Rs.250 Crores to Rs.300 Crores in our franchisee, distribution and we will try to reduce the losses further.
- Sumit Kishore:** In case of renewables are there any opportunities that you are looking at, similarly in licensed distribution and franchisee are there any other incremental growth opportunities in new areas that you are looking at or which are on the horizon?
- Saurabh Mashruwala:** Sumit, as we discussed earlier also and we have explained earlier in the call also as far as licenced distribution is concerned we have a capex plan about Rs.1500 Crores each year for the next two to three years time. For our licensed distribution we were thinking about Rs.1200 Crores capex we are going to incur each year for the next two to three years and the franchisee about Rs.250 Crores to Rs.300 Crores capex so this is the licensed distribution will give additional ROE and it will give additional ROE and franchisee we try to reduce the loss further. That is the plan for our distribution business. As far as renewable is concerned, we have an ambition to go up to about 5 GW of renewable capacity in the next three to four years by the way of inorganic as well as organic way and we are also

looking for the new distribution areas to be added to our business like what we have added for Daman and Diu. The government is coming up with another area like Puducherry and other areas so we plan to participate in that area also.

Sumit Kishore: Sure. The plans are stable. Thank you so much.

Moderator: Thank you. The next question is from the line of Sheen George from Geojit Financial Services Limited. Please go ahead.

Sheen George: My question is like how much quantity of gas was sold in this quarter, we know the numbers in financial terms amount, but can you help us with the quantity?

Saurabh Mashruwala: Yes, we will not be able to share more details about the quantity for the gas sold by the company.

Sheen George: Fine. Thank you.

Moderator: Thank you. The next question is from the line of Jiten Rushi from Axis Capital. Please go ahead.

Jiten Rushi: Good morning Sir. My question is on the gas cargo which you had tied up for merchant purpose so this is for this year 21 per MMBTU so in the upcoming Q3 also we can expect some best trading margin or we have already utilized the cargo?

Rishi Shah: I think we have not fully utilized the cargo there could be some spillover to the next quarter also from that cargo.

Jiten Rushi: The spillover in Q3 you are saying?

Rishi Shah: Yes.

Jiten Rushi: Sir on the volume number if you can give us the actual growth in the quarter for the franchisee business and licensing both given the Agra & SMK if it is possible?

Lalit Malik: On an average it is around 5%.

Jiten Rushi: Fine Sir. Okay Sir that is it from my side. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Dhruv Muchhal from HDFC Mutual Fund. Please go ahead.

- Dhruv Muchhal:** Yes Sir thank you so much. Sir in the standalone balance sheet if I look at the other financial assets there seems to be a decent increase that is even visible in the cash flow statement we changed for the first half so I am just wondering is it because of the regulatory asset, the unbilled revenue and if you can highlight something on that?
- Saurabh Mashruwala:** Yes. Part of it is because of regulatory assets. Part of it is also due to the adding of the Daman and Diu also, which was not there in March.
- Dhruv Muchhal:** Sir I was looking at the standalone because I believe Daman and Diu will be?
- Saurabh Mashruwala:** Yes the stand-alone number, yes, because it is in the regulatory asset.
- Dhruv Muchhal:** Is it because of some delays in what we call FPPCA fuel surcharge or is that getting reflected very well?
- Saurabh Mashruwala:** Yes, it is because the delay in the recovery.
- Dhruv Muchhal:** Sir, by end of September what would be the regulatory asset as of now, which you typically report in annual report, which is a recoverable?
- Saurabh Mashruwala:** Regulatory asset is built up in H1 and gradual reducing in H2. Better we will talk about the numbers in March 2023 that will give a clear picture on the regulatory asset.
- Dhruv Muchhal:** That is all and thank you so much.
- Moderator:** Thank you. As there are no further questions I now hand the conference over to the management for their closing comments.
- Lalit Malik:** Thanks a lot for participation and we wish everybody to stay safe and healthy. Thank you and over to you.
- Saurabh Mashruwala:** Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Torrent Power Limited that concludes this conference call. We thank you for joining us. You may now disconnect your lines.