"India Grid Trust Q1 FY23 Earnings Conference Call"

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MANAGEMENT:	**MR. JYOTI KUMAR AGARWAL – CEO** **MS. DIVYA BEDI VERMA – CFO – INDIA GRID TRUST** **MS. MEGHANA PANDIT – CHIEF INVESTMENT OFFICER** **MR. SATISH TALMALE –CHIEF OPERATING OFFICER – INDIA GRID TRUST**
MODERATOR:	**MR. SWARNIM MAHESHWARI- EDELWEISS SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the India Grid Trust Q1 FY23 Results Conference Call hosted by Edelweiss Securities Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone.

I now hand the conference over to Mr. Swarnim Maheshwari from Edelweiss Securities. Thank you and over to you, sir.

Swarnim Maheshwari: Thank you, Kathy, and thanks for dialing in all. I welcome you all on India Grid Trust Q1 FY23 Results Con Call. From the management today, we have with us Mr. Jyoti Kumar Agarwal – CEO and Whole-Time Director, Ms. Divya Bedi Verma – CFO, Ms. Meghana Pandit – Chief Investment Officer, and Mr. Satish Talmale – Chief Operating Officer.

I would like to hand over the call to Mr. Jyoti Agarwal for his opening remarks, post which we will have a detailed Q&A. Thank you and over to you, sir.

Jyoti Kumar Agarwal: Thank you, Swarnim, and good afternoon to all the investors on the call. I'm sure by now you would have gone through the presentation that we have shared yesterday. I'll quickly take you through some portion of the presentation and then the leadership team will take you through the rest of it and then we'll throw it open for questions and answers.

If you go to the slide four of the presentation, it's an overview of the overall Quarter 1 highlights. So, at an organizational level, the first and foremost thing that I want to talk about is the transition in the leadership. We've seen Harsh moving on to newer pastures and given the systems and processes that have been in place, we've seen a seamless transition in both the CEO role as well as the CFO role. We've also seen one more leadership change where Swapnil Patil who has been the Company Secretary for a long period of time with us ever since inception, due to personal reasons at his family level, he had to move on, and the Deputy Company Secretary Urmil Shah has been appointed by the Board in his place effective August 1.

We have completed five years and over the five years, we've grown tremendously through value and creative acquisitions, superior asset management framework and best-in-class corporate governance practices, while ensuring continued stability and predictability in the platform and we thank all the stakeholders including unit holders for your trust and confidence in us.

On the financial performance update, this year, the revenues in EBITDA have been more or less steady, with a marginal growth of about a per cent or two. This modest increase was largely due to a robust asset management framework where we could get some cost synergy and additional incentives despite no major acquisitions during the period. Collections this quarter are better than the corresponding quarter last year, although still short of the pre-COVID level, but we are seeing much better traction in terms of collections in the last couple of quarters. In line with our

DPU guidance, the Board of Directors approved DPU of Rs. 3.30 for Q1 and we are on track to achieve the DPU target of Rs. 13.20 per unit for FY23.

Our AUM was relatively unchanged at about 21,000 crores leading to a net debt to AUM of about 58% leaving enough headroom for growth before we hit the statutory cap of 70%.

On the operational performance side, we were impacted by unprecedented rains and floods in one of the regions where we have a large asset, which is the northeast region, which did impact availability, but nevertheless, we were still able to manage a handsome average availability of 99% in Quarter 1 and we've been able to implement DigiGrid across the entire portfolio and Satish will talk later on during the presentation in terms of what that entails for us.

If you move to the next slide on the industry update where we're seeing a robust coming back of power demand, we've seen a peak power demand of an all-time high of 213 Gigawatts in April. Even for the quarter, it was very high at about 210 Gigawatts. This was largely due to the resumption in post-pandemic economic activity and also helped by a heat wave in Northwest India. We have crossed 400 Gigawatts of installed capacity in June and it's nice to know that we're inching toward a 30% share of renewable.

In terms of the industry developments, we see a very robust pronouncements in terms of the spend estimates on transmission over the next five years almost as high as Rs. 1.2 trillion, as high as 32,000 circuit kilometres of transmission lines and nearly more than 2 lakh mega volt ampere of transformation capacity. Now all this would mean that there would be a lot of biddings in the ISTS space and many of those assets would come through for the market of corporate control in the secondary market and we would be very actively looking at it.

Apart from this, I think the NMP, the National Monetization Pipeline is also catching traction and we do expect some of the assets in the transmission space to be coming into the market over the course of this financial year. We'll be actively looking at this space for opportunities. We're seeing investments in interregional transmission capacity, largely for the evacuation of the new generation centers to the grid. Mostly it's renewable and we've seen one of our assets that we have bid out and one Kallam also being a part of that and we're seeing a lot of traction, regulatory and otherwise, on the battery energy storage space, which we are also proactively watching to see how we leverage on this as an adjacent play to our current portfolio.

I'll now hand it over to Satish to take it over the next slide please.

Satish Talmale: Thank you, Jyoti. So, I will update on the Quarter 1 operational performance. Again, from EHS perspective, we had a zero-event quarter. No injuries, no incident. The proactive reporting culture and a lot of measures around developing EHS culture has helped to maintain consistently zero harm status.

On availability, Quarter 1 average availability was at 99% and if you look at the bar chart, I think you'll find two assets, which are lower than our target availability. One is RTCL where there is no practical impact on India Grid because this was indemnified event. It was a road highway diversion project, which got recovered from NHAI, both from revenue loss perspective as well as from cost perspective.

On NER, as Jyoti mentioned, we had an unprecedented situation in Assam and due to flash floods, one of the towers got collapsed. Happy to share that we were able to restore that tower and lines are already charged and we are highly confident that the force majeure claim will pass through.

On reliability, I am happy to share that in Quarter 1, we have achieved lower trips per line compared to last year. Typically, Quarter 1 has increased trips per line because of changing weather conditions, but the performance was better than the previous year quarter.

Coming to Digital asset management, glad to share that all our assets are on digital platform. That means that every field activity which is performed are getting monitored, and referentially captured on the digital platform. This will definitely help in IndiGrid to create a platform which will be highly sustainable to enhance our life cycle risk and improve our cost efficiency as well. At the same time, we have integrated a digital platform with SAP ERP system. So, that activity is also completed.

Coming to Emergency preparedness, we do have emergency restoration system, which has really helped us during this unfortunate incident in northeast. We were able to restore it and of course, the investment in climate forecasting technology has helped us managing our outages and mitigate any proactive risk, which gets encountered due to high wind conditions.

Glad to share that we are now certified with ISO 27001, which is Cyber Security Certification and all our risk mitigation measures are largely completed on cyber security front.

On the right-hand side, there are few indicators. We spoke about trips per line. The focus on EHS trainings continued. Lost time incidents are zero. There is a good track record of reporting culture, which is reflecting in the number. Compared to last year, you can see that. On utility solar, we generated total 57.52 million units with CUF of 19.08% with the plant availability exceeding our targets. It is slightly lower than compared to last year because of the cyclone which happened in the month of May which impacted bit of solar radiation. That's why it's slightly lower. Otherwise, availability point of view, reliability point of view, performance is meeting expectations.

Thank you and we'll hand over to Divya.

Divya Bedi Verma: Thank you, Satish. I'm on Slide #7 on Quarter 1 financial performance. For this quarter, we have clogged in a revenue of around 561 crores and EBITDA of 512 crores. As against the previous year quarter, there's a marginal growth of 1% and 2% respectively in Revenue and EBITDA. NDCF generated for the quarter stands at 115 crores. As compared to the previous year quarter, we see a downfall, but for comparison purpose, I will exclude one-off items like last year quarter, we have done factoring of around 50 crores. So, like-to-like basis, we are almost there and the same numbers as a stable revenue return of stable NDCF.

The DPU for the quarter as approved by the Board and as per our guidance is Rs. 3.30 as compared to the previous year quarter was Rs. 3.19, we see a growth of 4%. So, that our platform is showcasing stable sustainable growth and value accretion coming on DPU.

Coming on the collection for the quarter, it stood at 77%, as compared to the previous year quarter collection of 70%. We have seen during the last two years in COVID, the collection in Quarter 1 have been largely impacted. Because of COVID in FY21, we've seen a Quarter 1 collection stood at 56%, last year at 70%, and this quarter at 77%. We are catching up with the collection. We see the trend of catching up with the collection and just to update on 1st of July, we clogged in another additional 4%. Hence, the collection percentage for the Quarter 1 would have been around 80 plus per cent. The DSO days stood at 65 days for this quarter.

Coming on Slide #8, as approved by the Board, the distribution of Rs. 3.30 would be in form of interest Rs. 3.06 and a capital repayment of Rs. 0.24. For a unit base of around 70 crores, this quarter we will be distributing 231 crores. With this distribution of 231 crores, total distribution since inception of IPO is around 3,200 crores across with an average of Rs. 61.82 per unit, which have been distributed till date. The record date of this distribution will be the 1st August of 2022 and the tentative distribution will be happening by 10th of August. And the graph on the right-hand side, which showcases 3 to 4% year-on-year growth on our quarterly distribution trend.

Coming on the next Slide #9, which is the showcase of our EBITDA to NDCF waterfall. So, EBITDA is 510 crores at SPV level with adjustment of various finance cost, working capital movement Tax and Capex. We have generated NDCF of 115 crore in this quarter. As we started-off with a healthy reserve of 221 crore, so this quarter without doing any factoring or any other measure, we have dipped in to a reserve of 116 crore and our closing reserve stands at 105 crore. With this, we will be achieving our distribution of 231 crores as per our guidance.

Now I hand over to Meghana to take up the next slide.

Meghana Pandit: Thanks, Divya. Coming on to Slide #10, balance sheet continues to remain robust with AAA rating by all the three rating agencies. In Q1 FY23, out of the overall refinancing of FY23 of about 2,400 crores, happy to share that we have refinanced almost 88% of that term. So, other than 300 odd crores, we have refinanced the entire requirement of refinancing for this fiscal and that has happened at an average cost of about 6.94% for this quarter which is substantially lesser than the overall average cost of debt which stands at around 7.51%. This is again lower if you look at Q4 of FY22, this stood at about 7.76%. With this refinancing getting done, the average cost of debt today stands at 7.51%. So, with almost 76% of our borrowing being fixed rate, we are geared up to face the headwinds on the interest rate environment that we are seeing.

We have a very healthy net debt to AUM of about 58% leaving significant headroom for future acquisition. Our cash balance again stood at a healthy level of 880 crore, which includes about 230 crores for the distribution, almost about 350 crores of DSRA as well as free cash.

If you look at the right-hand side pie-chart, it shows the diversified book of the total gross borrowing of Rs. 12,700 odd crores, which is between NCDs of 40% and bank loans of 60%. Even within the NCDs and bank loans, we can see a very diversified mix of investors across mutual fund, corporate, retail, public NCD holder, and private as well as public sector banks put together.

Coming to the refinancing schedule on the slide, we can see that it is very well spread overall ranging between about 10 to 12% of the gross borrowing. So, there isn't any particular year in which there has been a bunching up of maturity which we had seen for FY23 which in any case now largely stands refinanced.

Moving on to the next slide which talks about our return, we continue to perform on our total return basis, total return being affected by the distribution and price change. On our distribution part, we have delivered about 59% and price change of about 42%. Aggregating that to the total return of 101%, annualized return being 15% compared roughly with debt product of 10-year, 30-year GSEC, we have outperformed that. On the right-hand side, as you can see, this is pure play equity investment as well as other InvITs. We have outperformed those. More importantly, on a risk adjusted basis, which is affected by the beta stood at the lowest levels of 0.08. So, we have been consistently outperforming the comparable for this quarter as well.

I will hand it over to Jyoti to cover a bit about the business outlook of this year. Jyoti?

Jyoti Kumar Agarwal: Thanks, Meghana. So, going forward, we will continue to focus on maintaining stable operations for predictable and sustainable distribution, while looking for value accretive acquisition.

I think on the portfolio side, with the implementation of DigiGrid across the entire portfolio, we are very confident that will enable us to strengthen our operational capability through predictive, preventive and risk-based maintenance practices, which is very important given the diversity of the portfolio and the terrain that it operates.

We will continue to play a stewardship role in advocating policy initiatives bandwidth including index inclusion and tax reforms and remain very optimistic about the growth potential of the power sector on the back of supportive regulatory policies and growing investments.

We believe we are well positioned with our steady cash flows and low cost of debt to tap into the opportunities in transmission, solar and other related adjacencies in the country.

So, that brings us to the end of our quarterly update. I will request the moderator to open it up for Q&A, please.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Mohit Kumar from Dam Capital. Please go ahead.

Mohit Kumar: Sir, my first question is on the, of course, we have gone through the entire acquisition in the last few years and how do you see the pipeline or let's say third party assets pipeline, especially for transmission looking at this point of time? Do you think there are sizable opportunities available or it's too low and we need to look for different kinds of assets to grow our business? And are we looking to acquire something in this fiscal year?

Jyoti Kumar Agarwal: I'll let Meghana address it in detail, but from my perspective, I think if you look at our business core is transmission and we have a reasonable outlook in terms of pipeline in this space. Now obviously, M&A happens in spurts and there is also some bunching up of bidding that had happened over the last few years where some of the assets will, in our opinion, come through in the market for corporate control over the next 12 to 18 months and we are proactively scouting those opportunities as we speak and we will be very actively looking at those assets as and when they come into the market.

I don't see there being a dearth of opportunities, but yes, we will have to be selective in terms of what opportunities one plays with given our whole value proposition of ensuring that these are value accretive to unitholders at the end of the day. There would be obviously opportunities from the NMP process and we would like to believe for a fair price discovery, the PGCIL assets as part of NMP should be auctioned in my opinion. If they will be auctioned, then we will be actively looking for those opportunities as well.

So, there are opportunities. Of course, we cannot talk about some of the assets specifically where we are working on and I would hesitate to give you a guidance in terms of whether we will do asset acquisition this financial year or not. When there is a moment where there is development on the M&A front, we'll obviously come to the market and announce. But I can tell you that there are opportunities and the M&A team is actively scouting for those, but maybe Meghana can provide more details, please.

Meghana Pandit: Adding on to what Jyoti said, Mohit, if you look at it from an acquisition's perspective, remember that the framework assets, framework agreement that we had entered into with Sterlite, there is one asset which achieved COD in December 2021. So, that is one of the assets that we are looking to acquire and as and when we complete the process, we will, of course, announce it to the market. Other than that, I would say a couple of others on the operational transmission side also remain that we are looking at.

The third bucket that I would categorize the acquisition opportunities would be the solar projects that we had said we will be very selectively looking at, specifically with long-term PPAs with SECI, NTPC and strong counterparties such as those.

I think Jyoti also mentioned that we are very closely watching and monitoring the battery energy storage services utility scale one where a lot of our operational efficiencies will come to the play plus as a transmission player now we already have these leverages which we can work towards. So, this is an adjacent space that we are closely looking at in addition to the NMP which I think Jyoti spoke about. So, these are the ones, from an acquisition perspective, that we are closely looking at as we speak.

Mohit Kumar: When do you expect the clarity on the Power Grid National Monetization Pipeline, the second tranche? Any sense of anything you are getting from the government on the timelines?

Jyoti Kumar Agarwal: It is part due. I think there are some structural nuances which they are trying to iron out given the intent is to try not sell the asset while selling the rights and liabilities associated with those assets and that's an engineering problem for power sector, in particular, given the highly regulated space, it is taking some time to sort out, but we believe towards the second half of this financial year, some assets in the transmission space will come through, and they will be through a market determined process. Obviously, we are actively looking for those assets to come in the market and we will be bidding for them for sure.

Mohit Kumar: Lastly, on the cash flow side, I think that there is an increase in working capital in this particular quarter. Is this temporary or do you think this is going to reverse or this is going to be permanent?

Jyoti Kumar Agarwal: So, the first quarter generally is the weakest of the quarters when it comes to collections. That has been the historical trend and while this quarter we've had better than last corresponding quarter of the last year, but at 77%, it's much lower than the average for the year. So, this is a usual trend, working capital because of collections being lower tends to go up and then normalizes over the remaining quarters.

Moderator: The next question is from the line of Ruhi Pabari from Reliance Nippon Life Insurance. Please go ahead.

Ruhi Pabari: So, I just have one main question and that is pertaining to the availability of the transmission lines, like for two projects for two lines where we have seen that it has gone below the requirement as such and the reason is actually provided. Wanted to understand with respect to this notice, is there any payments or impact to this? And if yes, how much? And also going forward, any corrective actions or steps which we may have taken with respect to the same? That's my first question and second is the follow-up question on the working capital is majorly writing off. This time because of the high working capital, I understand this is a quarterly, seasonally, a phenomena that way that in Q1 the collections and the working capital is kind of really high. We are seeing a little dip in the reserve. So, any, if you could just throw some lights with respect to the building of the reserve in the going quarters would be helpful?

Jyoti Kumar Agarwal: I'll probably take the question on reserve and then Satish maybe can address your questions on lower availability in those two assets that you spoke about. So, if you look at our reserve buildup, generally, in the first quarter of the year, there is a dip in the reserve because of lower collections, right? And of course, if you look at the last two years because they were COVID impacted, the dip in the reserves were quite steep.

Now we have been doing factoring in the first quarter to meet our commitments on DPU which sort of get normalized in the next quarter. So, if you look at the Quarter 1 of FY22, there was a factoring of 50 crores that was done and if you adjust for that, the actual collections are comparable at about 118 odd crores in the last year 1st quarter and about 115 odd growth of NDCF in this quarter, right? So, it's sort of comparable.

There was a one-day anomaly where about 20 odd crores of collections which was supposed to come on the 31st or 30th of June spilled over to the 1st of July. So, if you add that, then like-to-like, I think it's comparable compared to last year. We did not do factoring, because one, there was a very, very healthy reserve of almost one quarter of DPU. We had a bumper collection in March quarter and so we thought that instead of having a negative carry where your cash is earning 3.5% and you pay a much higher rate on the factoring, we decided to dip into the reserve. We don't see this to be a worrying thing. We will see a catch-up of the reserves in the ensuing quarters to levels which are more normal. So, I don't think we as management are that much worried about it and we will see a gradual sort of normalization of reserves in the coming quarters. Maybe Satish, you can address the lower availability in RTCL, in NER.

Satish Talmale: So, on this two asset, the number one, RTCL is basically a road line diversion work where all the commercial losses are recovered. So, it's basically a contractual arrangement wherein we perform our obligation to correct the line and NHAI provides recovery for the cost as well as for revenue loss. So, that's pretty simple.

On NER, as its a force majeure event, definitely, it's qualified as a force majeure and we will get the deemed availability certificate. On the corrective action, those are on two fronts. One is on temporary restoration. So, the line is already charged, so which caters for immediate power requirement in that particular region. The permanent restoration will take some more time because we have to rebuild the foundation and then monsoon is also there. So, looking at that, once we complete the job, then, definitely, we will get deemed availability certificate, so, which will bring us back to our original availability targets.

Ruhi Pabari: Is there any P&L impact because of NER?

Divya Bedi Verma: For the current quarter, we have considered a P&L impact of negative of 12 crore, but it is temporary in nature. As we have a confirmation of force majeure and we are expected to receive this certificate by August, we will reverse this entry. So, it will get trued up in the subsequent quarter when we receive the certificate.

Moderator: The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: I'm sorry to be like a stuck record on this collections bed. But I was just trying to get the rhythm of the collections because it changes the working capital cycle. Is there any predictability to it? Or do we need to see it quarter-on-quarter in terms of how it grows and eventually hope that because of priority, you will get your collections? And the second question related is, is there any errant counterparties in the overall collection pool that is causing this delay, which can easily get written in another quarter? Those are my questions.

Jyoti Kumar Agarwal: The second question is the easiest. There are no like specific counterparty risks in the collection. That's the advantage of being a part of the ISTS, CTU pool. So, whatever risks are there are generic to the entire transmission service providers and not specific to us. In terms of the pattern of collections, I think, this is pretty much the normal pattern of collection that we've seen across the last five, six years. Just that the first quarter collections despite being the lowest are a little bit higher than what we've seen this quarter. Normally, they are in the range of 90%, but they are the lowest for the year. So, there is some bit of post-COVID catch up which is supposed to happen.

Also, you must be mindful, that there was a little bit of a front loading of collections in the March quarter. We saw a tremendous peak in the collections in month of March, for example. So, that has also led to a little bit of lower collections in this particular quarter. But I don't think there is any aberration here. This will normalize over the next couple of quarters as you will see and given this is an ISTS, CTU pool, this is sort of not specific to us. We are not getting any priority over others. It's just that this is the overall systemic collections at the CTU level and distributed proportionately to all the transmission service providers. So, this is endemic to the entire transmission industry as far as the ISTS is concerned. We don't get any one way or the other. We're not higher than anybody else and not lower than anybody else.

Moderator: The next question is from the line of Rahul Marathe from ICICI Prudential Pension Funds. Please go ahead.

Rahul Marathe: So, just wanted to know on two things. On the BESS side, you said that you are looking at various opportunities. So, if you could just quantify some of the upcoming opportunity or anything on that side? And secondly, on the factoring that you had mentioned, so what are the costs that are we incurring on the factoring in terms of annual percentage?

Jyoti Kumar Agarwal: Mr. Rahul, we have not done any factoring this quarter. We had done it in the corresponding quarter of the last year. So, there is no factoring cost that we have paid in this particular quarter.

Rahul Marathe: For the previous year, what was the rate that you paid? I wanted to understand the rate.

Jyoti Kumar Agarwal: I think, there is generally a 2, 2.5% negative carry. I think, if my memory serves me right, we were at about 5.5, 6% versus a cash yield of about 3, 3.5%, right? So, there is a negative carry, which we decided given there is such a healthy reserve, we don't want to do that in this particular quarter.

On your question on BESS, I'll let Meghana address the specific details, but the way we are looking at this opportunity is that, look, this is very, very adjacent to the transmission business given that many of our substations have a lot of extra land and you don't need that much extra land for setting up a battery energy storage station. What you need is connectivity to the grid and we are the grid. And then this is also passive, no moving parts and availability-based revenue mechanism. So, we see a lot of adjacency as far as BESS is done with our transmission footprint, but then that's where the similarities end and the differences start.

Technology-wise, this is an evolving space. A lot of moving parts there and the regulatory and the commercial construct is also evolving globally and so in India. So, we are looking at it very, very closely. We see this is a very attractive space to sort of foray into in due course, but some certain things will have to fall in place, especially the regulatory and the commercial certainty for it to sort of fit very well with our overall value proposition of predictable and stable cash flows, right? But we're watching it very closely. We're into the whole bidding process giving our suggestions to the regulators, the authorities and being keeping ourselves abreast with the development through the ecosystem. So, that once it sort of ticks the right boxes, we can play a meaningful role here. In terms of the specific opportunity, maybe Meghana can elaborate about those.

Meghana Pandit: So, Rahul, typically from a size perspective, it varies on what the bid specifications are and it can range from 200 Megawatts to 500 to 600 Megawatts. It's very bid specific per se and we are seeing that this market is evolving. So, to be honest, we will not be able to mention on a particular number, because it's a range. I think, what is important is this adjacency is something that we are closely monitoring and as and when we participate in it, we'll be able to throw more light on them from a quantum perspective on what is it that we are targeting.

Moderator: The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Before I ask the question, just a clarification. You mentioned the revenue loss of 20 crores for the NER, right?

Divya Bedi Verma: 12 crores.

Sarvesh Gupta: 12 crores. Okay. So, two questions. First of all, now that we have shown a YOY growth of almost 1, 2%, so it means almost five quarters we haven't been able to add any assets or AUM largely, and this is despite many of the sellers might be anticipating an increase in the rates. So, despite that we haven't been able to do anything on the AUM front and also it is more surprising because you added two more dimensions to it. One was solar and second was the battery that we have been talking about. So, despite all of this, five quarters gone, no asset addition, very, very surprising. So, if there is any specific information that you want to share why that hasn't been done, especially in a rising interest rate scenario because the sellers would know that asset prices will go lower and many people would have anticipated that. That is number one.

Second is, again, we have been looking at this big refinancing chart for FY23 for a very long time of 2,300 odd crores and ultimately, we did it in the June quarter of this year where we would have got a much higher rate compared to what we would have got earlier, and I think a lot of people have been giving this feedback for a long time that, if possible, we should have done refinancing earlier than why did we wait all the way for the rates to increase. So, any covenants or specific information that you can share why it had to be done in 1Q and not earlier when so much of feedback was given around that?

Jyoti Kumar Agarwal: So, Sarvesh, first of all, you may be surprised, but frankly, we are not surprised that we've not grown the AUM because that's not really our core value proposition. It's important that we understand our core value proposition is that we grow the AUM, but we grow it in a manner which is fitting with the business model or the strategy of the platform, that it has to be value accretive and it has to generate NDCF which provides predictable DPU. If you look at the market for transmission, I don't think there have been too many secondary transactions. In fact, hardly, I can recognize or remember stand-alone transmission assets being available in the market. So, we're patient and that's the right thing to do. When the opportunity comes, which fits into the model, we will bite it. We don't have to grow for the sake of growth and definitely, not at the cost of predictable distribution. So, that's an important thing which I thought I'll address.

In terms of the second question, maybe Meghana, you can address that.

Meghana Pandit: So, Sarvesh, if you look at the cost of borrowing at which we have already refinanced it, it is I would say substantially lower than 8%, our average cost, which has been there. More importantly, it is in line with the low-cost interest rate environment that we were in. So, we have taken advantage of the interest rates, which have been there. More than the covenants, we had lined up refinancing and we had lined up line of financing for specifically with this refinancing and when the opportunity was there, we refinanced it to be honest. So, not very sure, there was no point in refinancing it and paying any specific prepayment for breakdown cost. However, the idea was to pre-emptively tie up in advance and that when the opportunity came through.

Sarvesh Gupta: So, first follow-up on the first question is, so solar was also that we added, right? So, I understand transmission, very little has been done on the deal side, but what about solar which was at a higher IRR compared to our average assets? And that's where we added because we were seeing sort of a dry run on the transmission side. So, are we not seeing any opportunities which will suit us in the solar side because that hasn't grown, that book also hasn't grown much?

And secondly, on this refinancing side, so, let's say, six months back what was the rate at which we were raising and what is the rate at which we have refinanced these 2,000 odd crores if you can tell me that?

Jyoti Kumar Agarwal: So, Sarvesh, the short answer to your first question is that yes, there are no opportunities in solar that we have been able to look that fit into the model. Otherwise, you can rest be assured that we would have announced something, right? So, that's a short answer.

In terms of the refinancing, it's there on the slide 10. We've refinanced this particular large chunk at sub 7%. So, it's brought down our average borrowing cost almost 25 basis points and we did that pre-emptively ahead of the hardening of the rate. So, like-to-like, I think, a year back, this particular financing would have cost us upwards of 7.5%. So, we've been about 50 to 60 basis lower this year and we did this proactively to the extent we could where it made commercial sense, we pre-emptively borrowed at attractive rates and refinanced it. There's been a significant benefit on the refinancing because the assets of the loans which were coming off were coming off a very high-water mark of 9% and that's what led to the lowering of the average book about almost 25 basis points.

Going ahead there are a couple of refinancing which are coming up. Not a large chunk now. I think over the next one year, there would be about 550- 600 crores of refinancing. Now these are also coming off a high-water mark of almost 8.5, 8.6%. We are already in discussion in terms of proactively sort of refinancing these at the right time. We do expect, despite the hardening cycle, there to be a net value accretion to the bottom line because the refinancing rate will be lower than the hurdle at which these liabilities are coming off.

Moderator: The next question is from the line of Keyur from PNB Metlife. Please go ahead.

Keyur: I just had a quick follow-up question on NER. So, the deemed availability certificate application that we mentioned, so that is a protection for the revenue loss or capital or both? So, I would assume that we'd be incurring some capital costs also for the restoration. So, if you could throw some light on that?

Jyoti Kumar Agarwal: No, good question. Maybe I can address it and Satish, you can chip in. So, there are two, two impacts that you rightly captured it. There are two impacts. One is, of course, there is an availability loss because this is the tower collapse and that you get protection under the force majeure clause through the deemed availability. Then, obviously, there is a cost of restoration as well. We anticipate and let's see what the final design and engineering solution to the permanent restoration comes in. We do anticipate anywhere between, let's say, 8 to 12 crores on the restoration between now and September, October.

Now this is our entire footprint is fully insured including NER and this we get recovered through the insurance. So, that's how we get protection in terms of the capital cost of restoration as well as the availability through the force majeure deemed availability rule. Satish, you want to add anything.

Keyur: So, we have protection, let's say, on both these avenues.

Satish Talmale: That's fine, Jyoti. You covered.

Keyur: And just one more question. So, I think, Meghana mentioned about one of the projects which has achieved COD in December '21 that we might potentially acquire. So, can you give us a broad range in terms of the size of the transaction?

Meghana Pandit: So, the asset is under diligence, but from a range perspective will be somewhere about, let's say, 1,400 to 1,500 odd crores is what I can mention at this point in time.

Moderator: The next question is from the line of Mahesh from Edelweiss Tokio Life Insurance. Please go ahead.

Mahesh: One question I had is in terms of eventually all these contracts that we have, the BOOM contracts, the revenues taper down. So, how are we planning to maintain the DPU like what kind of leverage are we targeting at the final end? Are we ever going to take it up to 70%? Or how does that work? And how are we planning to maintain the DPU over time?

Jyoti Kumar Agarwal: Mahesh, so, first, in terms of our DPU strategy, we do have a plan in place to ensure that the DPU trajectory we have a visible sort of a runway for 5 to 7 years at a minimum including the potential accretion to DPU that we've been doing over the last four, five years and based on the current transmission revenue trajectory and by the way, it's not necessary that it's a linear decline. I mean, sometimes it goes up the first few years and comes down, but it's a sort of a flattest trajectory at least over the next seven, or eight years and then there's some decline. Based on the current portfolio, we do have a runway up to 7, 8 years easily to be able to manage the DPU expectation and then that becomes the reason why any growth in the AUM has to be DPU accretive because the idea behind growth is not for the sake of growth to keep on extending this DPU trajectory so that the runway continues to remain 7, 8 years, right, on a rolling basis. So, that's the logic behind ensuring that acquisitions are DPU accretive.

Your other question if you can just repeat that, Mahesh?

Mahesh: So, that was my first piece. It's more around the acquisitions, right. So, in terms of net debt to AUM of 58% I think for a while now, broadly, and so do we intend to ever go to 65%, 70% or?

Jyoti Kumar Agarwal: Yes. So, 70% is a theoretical sort of it's a regulatory cap and we don't want to go to like that kind of a level. I think once we hit, let's say somewhere around 62%, 63%, we would be looking to create headroom for further growth through an equity raise. There is some headroom right now. We are at 57_58%. But yes, internally, we don't want to be at a zone where we don't have an equity plan and we are above 65%. So, we start thinking about it, let's say, 60-61%, make sure that somewhere around 62 to 65% we do have a concrete plan in place. Idea is to sort of not be above 65% at any point of time.

Mahesh: Another question that I had was around the national monetization pipeline. So, from what I understand, the government has now kind of encouraged against transfer of full transmission assets or assets directly to private or non-government counterparties and it's more of a revenue transfer that they were looking at under the national monetization pipeline. Is my understanding correct? And is that what we'll be bidding for?

Jyoti Kumar Agarwal: We discussed this a little bit earlier, but that is the idea or the intent of the government and while some other infrastructure classes are more amenable to that kind of a construct, power, it's a bit difficult. So, they're looking at how they can achieve monetization in a way whereby they can live within the regulatory framework, at the same time, have the asset coming back at the end of the transmission license period, right? So, we don't have full visibility around what the final outcome would be, but they're working on finding a path where the assets are made to paid available to private participants, but there is a mechanism whereby the asset comes back or is available to the government at the end of the concession period. We will wait and see what construct comes because in power, if you have a concession devoid of the asset, then that doesn't really work from a regulatory construct. There are other complications of GST etc. And so, it's taking a little bit long to stitch it together but they're working very proactively, and we are hopeful that we should see some transmission related monetizations in this financial year.

Moderator: The next question is from the line of Ankit Patel from L&T Mutual Fund. Please go ahead.

Ankit Patel: My question was around the last quarter, there was a discussion of certain under construction projects also being looked at in a strategic way. So, just wanted to understand what is the thought process? Does it remain the same? And also, if an update is there on the KTL asset?

Jyoti Kumar Agarwal: So, Ankit, I presume when you say KTL, you're talking about the Kallam Transmission Asset, which we had bid and won.

Ankit Patel: Yes.

Jyoti Kumar Agarwal: So, that is the under-construction asset that we had paid and won last calendar and it's a small around 200 crore assets in Osmanabad in Maharashtra and a very simple terrain the smallish 35-40 acre, no forest approvals, plain terrain and we've been able to progress well on that particular asset. We've got the regulatory approvals. We've bought the land. We've also sort of awarded the EPC to KEC. We do expect the asset to be up and running middle of the next year and we are doing well in terms of our initiative in that direction. The idea behind doing this is that we do have a 10% regulatory headroom through under construction, but then we are very mindful of the under construction related challenges, the infrastructure developmental risk. So, use this sort of easy project to build skills, capabilities, to be very proactively looking at the feedback loop and learn from this and decide whether we want to do more of such projects at the margin from an AUM growth point of view. So, far the feedback is very, very encouraging. We've managed to acquire the land using the administration record time. In case, he's a marquee contractor and then things are looking pretty much on track. We will obviously evaluate, continue to evaluate this, and then update the broader market and the investors in terms of the next steps, if there is any feedback loop which enables us to do more of such projects in the future. Right now, we want to stick to it. It's early days still. This the land is there. We're yet to start the construction, but it's been encouraging progress as far as the first under construction project is concerned.

Ankit Patel: I think then this would still be less than 1% of AUM, but would you have any targets or set any targets in terms of what kind of percentage you would like to go to?

Jyoti Kumar Agarwal: So, look, there is a regulatory cap of 10%, Ankit. So, it's not that we can do beyond 10%.

Ankit Patel: Yes, within that 10%.

Jyoti Kumar Agarwal: So, based on how confident we feel and based on the asset opportunities which are there, which fit into our stable distribution, predictable platform strategy, we will look at how do we play this. We are also cognizant that another way to play this could be through a framework route, right, where instead of taking the whole asset risk on day zero, we enter into a credible partnership with an EPC player with some skin in the game, if required, some equity skin in the game and take over the asset once the asset is ready. So, sort of de-risk ourselves from the project risk part of it. So, there are multiple models here. Right now, I want to just tell the investors that this is the only project that we're doing and there's some time to go before we feel that there's enough feedback from this initiative to us for us to take a concrete decision forward. We'll obviously be updating the market as and when there is any development in this respect.

Moderator: The next question is from the line of Tanvir, an individual investor. Please go ahead.

Tanvir: So, I had just two questions. One related to the NHAI impact that was there. Has that already been realized in this quarter, the recovered loss? And the second was can we assume that the NER availability will be around 94% for the next two quarters or so? And I had one more, another question around last quarter. You all spoke about speaking with SEBI regarding inclusion of InvITs in the index. Is there any update or any follow through on that part?

Jyoti Kumar Agarwal: So, on the RTCL and NER, maybe Divya, you can update on that and Meghana, you can update on the index inclusion efforts, please.

Divya Bedi Verma: For NHAI, yes, we have realized the loss of revenue completely. We've got an advance payment from them. On NER availability for the Quarter 1, as I mentioned, we had a committee meeting, and we are very confident of getting a force majeure. So, we will get 100% revenue for the Quarter 1. For upcoming quarter as we have already done our restoration through ERS, subject to the restoration, we will get the availability certificate.

Meghana Pandit: So, on the index inclusion, the efforts and work is on with all the regulators including SEBI and the exchanges. We understand that they are considering it very seriously and we are hoping that it gets done in the coming quarters. Having said that, right now if you're asking me if it has been done, that's not the case, but we are working with the regulators to get InvITs at least included in the indices very soon.

Tanvir: And if I may ask, have they communicated any concerns around that to you as to what is the biggest, so what's stopping them from having InvITs in included?

Meghana Pandit: Not really, Tanvir, it's not like any concern, but it's a process which involves two, three regulators including the exchanges, SEBI plus largely the mutual funds. Various funds also get impacted because of this. So, they are just figuring out if any of the specific debt or equity funds, how will it impact per se. So, as such not a specific concern per se, but it's a process and it's being looked at.

Moderator: The next question is from the line of Swarnim Maheshwari from Edelweiss Securities. Please go ahead.

Swarnim Maheshwari: So, the first question is on Khargone. I believe Sterlite Power had commissioned this asset in January. It's been about more than six months. So, what's taking us so long to really acquire the asset? Is the due diligence still on?

Meghana Pandit: yes, the diligence process is currently underway. While the COD was achieved, the COD from all the approvals and from revenue recognition etc., like getting inducted in the POC per se was pending and takes some time. So, the process is underway per se from a diligence perspective, and we are moving. It is going at the right speed.

Swarnim Maheshwari: So, when can we expect that? Next quarter, can we expect this in Q2?

Meghana Pandit: I think, Swarnim, forward-looking guidance, I don't think we are targeting that, but once definitive agreements etc., get done we will announce it.

Swarnim Maheshwari: Because, I mean, just curious to understand normally whenever the asset have constructed earlier also for the framework asset, it normally hasn't taken this long. So, I just wanted to understand, is there some issue? What is it exactly?

Jyoti Kumar Agarwal: No. So, Swarnim, there is no issue as such. As Meghana alluded to when the COD happens, there are a few loose ends around revenues which are contingent on certain regulatory decisions, right? And so, think from a seller's point of view, you want to optimize valuation when you sell, and if there is a line of sight that you will get 100% certainty on some revenue streams based on regulatory process, then you rather wait a little bit here and there. So, it's largely that. The diligence is fully on, and we don't want to sort of give a guidance because M&A gets tricky, right? But if you ask me, I feel this is definitely, this financial year transaction is not the calendar year. But we'll, of course, guide the market at the right time when the developments are good enough to come with a formal disclosure.

Swarnim Maheshwari: The second thing is on RTCL. So, in Q1, we had a lower availability due to NHAI and we mentioned that everything is recovered from NHAI. Have we also recovered the incentive income from NHAI? Because if not for that, we would have also achieved an incentive income. So, is that also taken care of? Maybe it was a very small item.

Jyoti Kumar Agarwal: Look, there is a small, I think Divya can correct me, about 1.5 crore of non-recognition of revenue because of this, but this is only a deferment, because we have full availability for this particular asset and then as the availability catches up towards the end of the year, then this is a protected revenue which will recognize, my guess is sometime in the third quarter and the fourth quarter for sure. So, there's a small timing gap of recognition of revenue. I think, it's 1.5 crore. Divya can correct me, but beyond that there is no real financial impact.

Swarnim Maheshwari: And finally, on DigiGrid, we have rolled it out across all the assets. So, how is it performing? And have we been able to see some tangible benefits? And if possible, if you can quantify, if for this period and for the coming period, what would be the tangible benefits in terms of the cost savings or something from DigiGrid?

Satish Talmale: So, tangible benefits will certainly take some time because the platform has been just launched and implemented, but what it enables us to improve the transparency on all the field operating activities what we do every day. So, earlier we were highly dependent on the people to capture all in a manual mode, but now those are getting entered through all the hyper ads and tabs it's coming and it's consistent across the portfolio. That's the biggest advantage. Data starts coming in the system. The analytics will help us to make a better-informed decision in terms of prioritizing the high-risk defects focusing on the right things on the portfolio and that would drive the tangible benefits in terms of better productivity, better utilization of manpower and all the resources, but give me a couple of quarters, I'm sure we'll be able to quantify those and then present in the investor meeting.

Jyoti Kumar Agarwal: Swarnim, if I may just add, there are two aspects of DigiGrid. One is, of course, what Satish mentioned. It does enable certain non-available capabilities for preventive, predictive maintenance and very good from a risk management point of view. It's also well integrated into the FA, the financial accounting system. So, in terms of some of the investments that we would have had to otherwise make in, let's say, procurement and other financial related capabilities, that is sort of obviated and the most important benefit of DigiGrid is that it helps to sort of beat the O&M increase on a year-on-year basis, making it agnostic to people and some of the other aspects of inflationary elements of O&M. So, it is an investment which will reap benefits over a period of time and so far, it seems to be stabilizing very well. It is also about culture and habits change, right? And that was a concern that we had, but thankfully, the team has really risen to the occasion and people are sort of taking it up quite well. So, we are very happy with the decision and the benefits will, as Satish shared, will come through over a period of time.

Swarnim Maheshwari: What is the cost of this rollout by the way? Is it a big cost? If you can just tell us, what is the cost of this rollout?

Divya Bedi Verma: Kind of an annuity model, we spend around 2 crores a year on average for few years.

Swarnim Maheshwari: Just one last bookkeeping question. What was the incentive income in this quarter?

Divya Bedi Verma: This is around 5 crores.

Swarnim Maheshwari: How much, Divya?

Divya Bedi Verma: 5 crores.

Swarnim Maheshwari: 5 crores. Because I think on a quarterly basis, we used to kind of book about 10 to 11 crores. So, this quarter it's substantial. Is it to do with any NER?

Divya Bedi Verma: Yes, we did not book any incentive in NER primarily. The incentive is 5.9 crores. That's around 6 crores, sorry.

Moderator: Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for their closing comments.

Jyoti Kumar Agarwal: So, thank you everybody for being on the call and for your questions and your support and trust in IndiGrid. We look forward to your continued support and wish you happy health. Stay safe. Thank you.

Moderator: Ladies and gentlemen, Thank you. On behalf of Edelweiss Securities Limited, that concludes this conference call. Thank you all for joining us. And you may now disconnect your lines.