"Torrent Power Limited
Q1 FY2021 Earnings Conference Call"

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ANALYST:	**MR. HARSHAVARDHAN DOLE – IIFL SECURITIES LIMITED**
MANAGEMENT:	**MR. SANJAY DALAL – CHIEF FINANCIAL OFFICER– TORRENT POWER LIMITED** **MR. RISHI SHAH – ASSISTANT GENERAL MANAGER - TORRENT POWER LIMITED** **MR. JAYPRAKASH KHANWANI – MANAGER - TORRENT POWER LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Torrent Power Q1 FY2021 Earnings Conference Call hosted by IIFL Capital 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Harsh Dole from IIFL Securities. Thank you and over to you Sir!

Harshavardhan Dole: Thank you, moderator. Good morning. I welcome you all on behalf of IIFL Security for the first quarter earnings call of Torrent Power. To discuss the numbers in depth and also share the outlook for rest of the year, today, we have the senior management team of the company, represented by Sanjay Dalal, who is the CFO; Rishi Shah and Jay. I would first request Sanjaybhai to give his opening remarks, subsequent to which we can have the call open for Q&A. Over to you, Sir!

Sanjay Dalal: Thank you, Harsh, and good morning to all the participants. As usual, I will first give an overview of the performance for the quarter, and then we will take questions from you all.

As you would already have the Q1 financial results, I will just recite some of the key numbers and give some explanations around them. The consolidated PAT for Q1 came in at Rs.368 Crores versus Rs.274 Crores in the comparative quarter i.e. up by Rs. 94 Crores or about 34%. The PBT number was Rs. 468 Crores versus Rs. 320 Crores in the comparative quarter i.e. up by Rs.148 Crores or about 46%.

Before talking about the numbers, I would like to first deal with the non-recurring items, which are embedded in these numbers to get a clearer picture of the underlying performance. So firstly, in our license distribution business, we won some favorable orders from the regulators with respect to regulatory claims amounting to about Rs. 344 Crores made up of two parts: one is the basic claim of Rs.283 Crores and the tax allowance thereon, which we would get of about Rs.61 Crores. The main item in these one-offs is the carrying cost order, which we won. The carrying cost pertains to earlier years and since these were in dispute, they were not accounted earlier and have now been accounted based on the favorable orders which we have won.

The other one-off during the quarter was a loss of Rs.61 Crores, which we incurred because the government asked us to waive the fixed charges for certain category of customers for the month of April in our licensed distribution areas of Ahmedabad, Surat and Dahej. We do not expect that this waiver of fixed charges for a certain category of industrial and commercial customers will be allowed as a true up and therefore, we have taken a charge on that account. So there is a Rs. 61 Crores impact on PBT because of that. And additionally, of course, there were certain COVID-related donations, which we made, all amounting to about Rs. 12 Crores. So these three were the key one-off items during the quarter.

Now if I adjust the PBT number for these three items, of income and costs, then the adjusted PBT for Q1 comes to around Rs.196 Crores, which was Rs.311 Crores in the comparative quarter. That means the adjusted PBT is down by Rs.115 Crores or 37%. The key reasons for the reduction in PBT are, of course, the pandemic induced impacts. The pandemic initially posed unprecedented operational and cash flow challenges in both the distribution and generation segments. We were successful in addressing all the operational and cash flow challenges and were able to keep our operations uninterrupted all throughout the lockdown period and, of course, thereafter as well. However, the pandemic did adversely impact the financial performance during the quarter, mainly due to the unanticipated and drastic reduction in electricity demand in all our areas.

Just as an overall number, the Q1 electricity demand was down by almost 37% as compared to the comparative Q1. This reduction in demand has particularly hit us hard in our franchise distribution segment. So that is one reason where straight loss of contribution has been witnessed because of lower demand. Additionally, because of such a drastic reduction in demand and the change in the customer mix, the overall T&D losses have increased. It is because this demand drop has happened essentially in the industrial and commercial segment, which are typically low T&D loss customers. Due to that, now the low T&D customers have taken much less electricity and the higher loss electricity consumers have continued to consume at the same level as that in previous year, resulting in an overall increase in T&D losses. So that is another reason which has impacted the financial performance.

Lastly, of course, we had a very good merchant power business last year, particularly in the Q1 of last year. That also got impacted because the overall market volumes in merchant power and the realizations were down. These three are the key reason why the adjusted PBT is down by about Rs. 115 Crores.

Moving on to the segment-wise performance; the gas-based generation segment brought in better contributions towards PBIT during the quarter, primarily because of two reasons. One was that this quarter, our UNOSUGEN plant operated under the long-term PPA, whereas in the comparative quarter, UNOSUGEN plant was not operational under the long-term PPA. So that benefit is there on a comparative basis. Secondly, if you recall, we had provided for Rs.1000 Crores impairment in the DGEN assets in Q4 last year. Now that has resulted in a lower depreciation charge on the DGEN plant in this quarter and so will be the case in the subsequent quarter. Because of these two reasons, overall gas-based performance has been good. And of course, it is good after absorbing the reduction in contribution, which came from our merchant power business. So on a net basis, the gas-based generation has helped us by improving the contribution during the quarter.

Under the renewable segments, two things have happened in this quarter. We had additional 126-megawatt of capacities, which were operational and not there in the previous quarter. So that brought in additional revenues. However, we experienced significantly lower wind speeds in this quarter as compared to the previous quarter and therefore, the PLFs were down. The net effect of this was that the renewable business was broadly was stable. At PBIT level, it was more or less at the same level as it was in the comparative period. And of course, there's no particular COVID impact as such in this particular segment, because of it must run status.

Coming on to the licensed distribution business. So basically the licensed distribution business has a regulatory moat, which protects its profitability, and hence the bottom line remained unaffected during the quarter. It was more or less at the same level as it was in the previous quarter, if you take out the non-recurring effects. But of course, this was in spite of the volume and T&D losses both getting adversely impacted in our licensed distribution business. So the volume reduction even in the licensed distribution business in Q1 was 36%,and the T&D loss also was higher as compared to the previous quarter because of the adverse change in sales mix, which I explained earlier. But because of the cost-plus nature of the regulation, the profitability has not been impacted because of this.

Coming on to the franchise distribution business, this was the most affected segment. Bhiwandi and Agra both witnessed significantly lower volumes. In these two areas, our volumes were down by almost 41% as compared to the comparative quarter. Of course, the trade impact of this is the loss of contribution i.e. the key driver. The T&D losses were also higher because of the adverse change in sales mix, which I explained earlier.

Collection efficiencies were sharply lower in Q1 in these two areas; however, the additional provision which we took in Q4 last year for these areas had the reaps of most of the losses arising out of doubtful debts because of lower collection efficiency, so not much impact in Q1 on that account. On an average, Bhiwandi and Agra therefore suffered a significant reduction in PBIT in the quarter. But having said that, Q1 is the quarter in which the impact of COVID on these areas will be the highest. Going forward, we see that this should start going down and by Q4, we should substantially come out of that. Additionally, the Shil, Mumbra, Kalwa area, which was taken over on March 1, also operated during this quarter. It was not there in the comparative quarter and of course, we could not do much because of lockdowns and other restrictions in this area. So, this new area also contributed to the lower performance in the franchise distribution businesses.

That sort of completes the overview of the quarterly performance. I would now request the participants to raise the questions on the performance, and we can go to the Q&A portion now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Thank you for the opportunity. It would be helpful if you could give us some flavor on the franchisee part of the business. What was the performance in terms of on the June month and the July month, as a percentage of last year's performance? And you mentioned that by fourth quarter, you expect normalcy to restore. So how should one look at the performance in the next one or two quarters? The second question is on the capital expenditure front for the licensed distribution area. Last call, you mentioned that one needs to go back to the regulator and what is the kind of capex required given the current situation? The last question is on the new distribution opportunities. It will be helpful, are there any circles that you have understand that should be on the ground level that these could be put up for privatization or franchisee level in the next 12 months? These are my questions.

Sanjay Dalal: So first question was June, July performance on volumes, right, in the franchise distribution business?

Bhavin Vithlani: Correct.

Sanjay Dalal: June, I can certainly give. July, do we have readily available. So let me give you the June actual number. I will give you the quarterly numbers for both distribution franchise business. The distribution franchise business in Q1 experienced a 37% drop in the volume as compared to the comparative quarter. Now this includes SMK, which is purely a residential area and it was not there with us in the previous quarters. We, of course, have the numbers for the previous quarter. But if I remove SMK, where the demand has not really been affected, then for Bhiwandi and Agra together, the volume drop in Q1 was about 41%, all put together. July numbers, I do not readily have, but I will give you an off the cuff number which we have for July. So for July, distribution franchise business is likely to be down by about 25% as compared to the previous July. Lastly, I will give you an overall flavor for the whole year, how we are looking at it as of now and this is a continuously evolving situation, and there are significant risks to demand which are still there. This number is what is our current estimate. So currently, for the distribution franchise area, we feel that we will experience an overall demand drop of about 20% for the whole year 2021. It is not that things will become normal, but in March we will see a positive growth because the comparative March was also affected, and a lot of recovery would have happened. But I think a normal year would be the year thereafter probably. So that was one. Second, you said about the capex in the licensed distribution area. I think one comment you made was that we have to go to the regulator for that capex. That is not the case. I mean, the regulator has already approved a capex plan in the multiyear tariff orders which he has passed and of course, now there will be a new multiyear tariff order which will come up from the next year. But we have given a guidance of Rs.1500 Crores per annum capex for next three years i.e. 2021, 2022, 2023. Of course, there is likely to be a slippage in the current year because of the time lost. So Q1 is more or less lost. And now we are in monsoon. The monsoon preparedness also has not happened because of the lockdown and other restrictions. So whilst there will be a slippage in the capex for the current year, we hope to catch up in the remaining two years. So we are continuing to hold the guidance of Rs.1500 Crores of capex per year on an average in the next three years that is 2021, 2022, 2023.

Bhavin Vithlani: Okay. So this year would be less than Rs.500 Crores?

Sanjay Dalal: Again, this year, estimates are dicey but I would sort of put it at, to be honest, in the Q1, we had about Rs.100 Crores of capex. So now we have three quarters. Now Q2 typically is a low capex quarter because of monsoon. That leaves with Q3 and Q4. So we are working on a catch-up plan. If you want a rough number for what would be the whole year, I think it would be around Rs.800 Crores. That is what we are targeting. The third question, you said, that what are the new distribution opportunities, right, in the next 12 months? As a part of the pandemic package for the power sector, the government made bold announcements of privatizing the distribution sector across the country and so on and so forth. I think work on that front is happening in the Central Ministry, and there would be something which would come out soon. Right now, we do not know what the framework is going to be in which they are going to privatize, except that they want to first start off with the Union Territories, which are, I think, Jammu & Kashmir, Ladakh, Chandigarh, Puducherry Diu, Daman, etc. Other than Chandigarh, I think most of them are small areas and on the state side. I think right now, there is a process ongoing in Odisha where the Orissa government is trying to privatize three of their distribution circles. These are the opportunities which are today there in the market. These are the Odisha distribution circles which will come in next 12 months. I think we will have to wait for the government to come out with the framework within which they want to conduct privatization and how states respond to it. What we feel is that, I think some of the states will probably want to go with the franchise distribution model because it is fairly tried and tested. And some may also go with the privatization model. But I think that will be clear only after the framework is announced and then how states respond to it. So it is difficult to say what will happen in the next 12 months. So far as the company is concerned, of course, this is a great opportunity for us because it is an area where we are very strong. We have the management capability and the bandwidth to take on new areas. Therefore, we look forward to this as an important growth opportunity for the company.

Bhavin Vithlani: Thank you so much for taking my question. Best wishes from our side.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Sir, my first question, just wanted to clarify, you said, you have not taken any further provisioning with respect to, let us say, Bhiwandi or Agra, anything going back there with respect to receivables. Anything of that sort is not being taken in this quarter. That is the right understanding, right?

Sanjay Dalal: There is net provisioning of I think around Rs.4 Crores, which we have taken. What I said is, there was no significant provision, additional provision required because of lower collection efficiencies.

Nitin Arora: Any particular reason, Sir, we are not providing there then areas like Bhiwandi, the textile units are shut. People are not there, not coming back. Once they come back, we will come to know their business capability, their areas, their capability of areas to pay you and I think in accounting terms, there is a concept of ECL, which I think every company is doing it. So any surprise that why auditors are not saying or rather be taking certain provisions? And I mean, where does that content come from? Just wanted to understand that?

Sanjay Dalal: I can explain that to you. So we also follow the ECL concept. If you recall, in Q4, we had taken almost Rs.50 Crores of special provisioning, for Bhiwandi and Agra. Let me tell you what is the normal provisioning policy. So in Bhiwandi and Agra, what we do is that once an account is overdue by 120 days, we make provision for the entire amount in that account. What happened in this quarter was that there was an extension of due dates by the government because of which customers postponed their payments in both the places. So the provisioning policy was adjusted from 120 days to 120 days plus the extension, which was granted by the government. On that basis, we worked out what is the provision we would require. And against that, what is the aggregate provisioning, which we already hold. Since the provisioning of Rs.50 Crores was already taken in Q4, there was no need for further provisioning required. And that is how this quarter does not have a higher provisioning for bad debt, doubtful debt. These are not bad debts. These are doubtful debts because they are done on an aggregate basis on a non-formula basis. On an overall basis in the remaining three quarters, each of the quarters we have some provisioning, but we will have to make the provisioning as and when the sales happen. See ECL concept does not allow you to make provision for sales, which is going to happen in Q2 or Q3 or Q4. I have to apply the concept to the debts, which are outstanding as on June 30 and see what is not likely to be recovered from there so that all is properly taken care of. The next question is, will we face some additional credit losses in the remaining three quarters? Most certainly, we will see that. But some of the sales which happen in the next three quarters, we may not be able to recover. We will assess that at the end of each quarter and whatever is the provision required, we will make it. So that is the second question. The third question, just to give a color around the topic I will just share with you what is the collection efficiency in Bhiwandi and Agra. Bhiwandi, in Q1, our collection efficiency was 85%, which means that whatever we bill to the customers, 85% of that we have collected within the due date. It does not mean that the rest 15% will not come but some of it may or may not come, and that has been taken care of in the provisioning. If I take the last year, that collection efficiency was almost 100%. So there is a deterioration in collection efficiency. Similarly, Agra collection efficiency was 77%, which is a deterioration from around 92%/ 93%, which it was there in the last year. So going forward in the remaining three quarters, we expect that the collection efficiencies will improve and at least in Bhiwandi, on an overall basis for the whole year, we will reach around 100% collection efficiency and in Agra, we will probably reach to the levels we were there earlier that are about 97%, 98% collection efficiency. But that journey from here till then will involve some credit losses, and we will take those as and when they come in the respective quarters when they are required to be taken.

Nitin Arora: Sir, just one clarification this collection efficiency is on down volumes of 50%, 60%, right? The volumes are not 100% there. So when I think collection efficiency, whatever it is paying to me.

Sanjay Dalal: Right. Yes. So whatever I have billed in the quarter and how much I have collected out of that.

Nitin Arora: Sir, can you talk about a little more on the working capital side, how is the receivable movement has been done and on the debt side? That is my last question.

Sanjay Dalal: Debt side, you said?

Nitin Arora: Yes, debt and the working capital, the receivables?

Sanjay Dalal: I will take the working capital first. So when the lockdown was announced, almost all state governments extended the due dates for payment of electricity bills as a measure of relief to the customers. So for us, it meant that our collections went down to almost 0 in the month of April and May, practically, whole of it. But at the same time, we were directed to continue our operations uninterrupted. So of course, there was a huge cash flow challenge. We very successfully overcame that through a combination of measures. One was that we had very strong liquidity position in the balance sheet as of March 2020,so that came in good. It helped us keep our operations going. Number two, we also had a large undrawn credit lines with the banks. And we utilized that to meet our cash flow requirements in this period. This put together help us keep our cash flows intact. We also opted for the moratorium, which was permitted by RBI in these months. And all these three measures put together helped us manage the working capital well. We could keep the operations going for all our power purchases, all our fuel purchases, for all our transmission charges, everything in time and with full rebates, which are allowed for timely payments and keep supplying electricity. June onwards, in the licensed distribution area, we started recovering our money pretty quickly. So we started reversing all these additional borrowings, which we had done in April and May to keep operations going. We could substantially reduce that in June. I think there has been a further reduction in July. And by August end, we should be back to almost 0 working capital debt. It would mean that the position as on March 2020. I think by September, we should be back to normal so far as our receivables are concerned on an overall basis. And we would have no working capital debt in the balance sheet left. So far as debt is concerned, as I told you, we had operated for moratorium for the month of March, April and May. But in June, we completely reversed all the moratorium and we paid off all our long-term dues which had fallen due in March, April and May. And also, in addition, prepaid about Rs. 300 Crores of debt, for which we had an opportunity to do in June end. So that is the overall position on that. I can give you where we are on the outstanding debt position. As on June end, we had Rs. 9,300 Crores of total debt outstanding, versus Rs.8900 Crores of debt outstanding on March 2020 so roughly a Rs.400 Crores increase in debt, which, as I said, we will be able to reverse it by August end substantially and on an overall basis, we will end up with a net reduction in debt for the year. A significant benefit has come in form of lower interest rate. So that is also seen in the Q1 numbers.

Moderator: Thank you. The next question is from the line of Nishant Chandra from Temasek. Please go ahead.

Nishant Chandra: I had two broad lines of questions. One, for the customers who are, let us say, either bad credit and all of that, do we have any caution deposit or some sort of an advance against each of these customers? Because that is the case in the case of retail in some of the other jurisdictions, so I thought I just checked because that access in a way, sort of it keeps the customers honest in a way. That is one. And the second one is for some of the facilities that you have extended to the customers, which is, let us say, effort collections and so on and so forth as managed by the government, is there any compensation mechanism that the government or the regulator intends to provide you with?

Sanjay Dalal: First question was whether we have any security deposits. We do have security deposits for the customers, which are available to us in case of loss. That is one part. In licensed distribution area, therefore, we are pretty covered. We generally may not have significant provisioning ever happening in the licensed distribution area. In franchise distribution areas, there are baggages, which have come along with these areas when we took over. And one of them was that the security deposits are inadequate, and they were taken ages back, so not adequate as compared to the customer bills, which are there today and that is not something which is available with us. It is retained by the licensed operator because the licensed operator is entitled to collect security deposits. I am only a franchised operator. So he retains the security deposit. But in case of bad debt, he gives me the security deposit. So we do get that but the coverage is not adequate. That is one point. However, there is an additional safeguard, which is available generally to the electricity operator, whether it is franchise distribution or license distribution. And that is the disconnection. So there are rules for disconnection and reconnection. We would certainly disconnect if the dues are not paid as per the rule. Once the disconnection happens, those dues remain attached with that property. Whenever a reconnection is sought for that property, the person who wants the reconnection would have to pay that due. So there is always a fair chance of recovering it in future also. And we do recover old dues from disconnected customers when somebody else buys the properties and seeks a reconnection.

Nishant Chandra: The second one is the compensation on the ROE basis, Would the regulator provide any compensation to you?

Sanjay Dalal: So there were two reliefs which were granted by the government. In the license distribution area, there is Ahmedabad, Gandhinagar, Surat and Dahej the Government of Gujarat announced a relief for high-tension and low-tension, medium demand customers, essentially the industrial customers and commercial customers, that they will not be charged fixed charges for that period, for the month of April. And we do not expect the regulator to allow us a true-up of this cost, this loss. So therefore, we have taken a charge for that cost in our P&L. So Q1 reflects that charge. It is about roughly Rs.61 Crores.

Nishant Chandra: Sorry. So the government declared that they will not be charged, and they are not even compensating that.

Sanjay Dalal: Yes. So that is the provision, I mean, from an accounting perspective vis-à-vis the regulators. From the government we are, of course, seeking compensation for that, saying that this is against the regulations. I mean, you can grant that benefit, but you cannot ask us to bear the cost. As and when we receive that, we will bring it into the books. As of now, we have taken the charge, I mean, as a prudent measure. And secondly, on the extension of due date, of course there is an economic cost which we have incurred but we are not accounting any compensation on that account. However, vis-à-vis the government and the regulator, we have already made submissions and we will continue pressing the issue that we must be compensated for the economic cost for delay in payments.

Nishant Chandra: It is a common thing. It is nothing unique for you. It is for every distribution franchise, you will have incurred that cost.

Sanjay Dalal: Yes. I think right now it is not the time to press the issue as the government itself is diverted in fighting the pandemic. But I think when situation normalizes we would take it up properly, both with the government as well as the regulator that we are suitably compensated for both these matters.

Nishant Chandra: Understood. Just 1 last question, if I can squeeze I have joined the call late. So I do not know if you have covered your plans on new zones of expansion for either license distribution or franchise distribution because there were a few bids which were expected in the first half of this year. If you can just maybe throw some light on how the company is thinking about those?

Sanjay Dalal: The government had announced a package for the power sector and one of the aspects of that package was the intention to privatize the distribution segment in the power sector. The framework for privatization has still not been announced. Therefore, today, we do not know what is the framework as well as what would be the responses of the states because it is the state who has to carry out the privatization. So difficult to say, but we do know that the government is working on a proper framework. And soon, we will have that framework in place so once we have that we would know what are the opportunities which can come this year or next year. Today, that visibility is not there. The only visibility is there that I think the Union Government is clear that they want to privatize the Union Territories. But those are small, except for Chandigarh, I think there are smaller areas. But nevertheless, they would be important and interesting.

Nishant Chandra: You would also be far more cleaner than state SEBs Discoms, right?

Sanjay Dalal: Of course, yes. So far as franchise distribution is concerned, I think, again, there is no clear visibility in terms of which areas would be coming up initially. I think most of the states probably are also waiting for seeing what is the privatization framework before taking calls on whether they want to go for privatization, whether they want to go for franchise distribution or whether they want to follow a hybrid model. So I think let us wait for this framework. But as a company, we are preparing ourselves because this is one of the most important opportunities as far as we are concerned because we have one of the areas where we are amongst the best in the country.

Nishant Chandra: Would that require a lot of capital? Or what is your sense? It would be capital-light or moderately capital intensive?

Sanjay Dalal: I would say moderately and well-spaced capital intensive. So moderately capital intensive, but the capex will also be well spaced. So you are able to incur capex on a modular basis and start generating revenues out of it. It is not like a power plant where you upfront put Rs.8000 Crores before you see the first revenue for that time, you spend Rs.300 Crores and Rs.400 Crores and you will start seeing revenue benefit coming out of this. Then you move to the next. And so because it is modular in nature, you can also plan it and replan it to ensure the optimal mix between capex and revenue generation associated with it.

Nishant Chandra: Thanks a lot for answering all the questions.

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

Abhishek Puri: Good morning Sir. Sir just wanted one clarification first before I jump on the questions. You said in July, DS volumes are down 25%. Does that include the SMK circle as well?

Sanjay Dalal: I can give you without SMK circle. Also yes, it does. So Bhiwandi, we are seeing a minus 41% drop in July. Agra, we are seeing a minus 1% drop only. Bhiwandi, we must remember there was a re-imposition of lockdown also. And SMK is not relevant because there was no comparative July, but we have the numbers for comparative July. So SMK is more or less the same. There is neither any growth or degrowth. So it is Bhiwandi, because Bhiwandi has 90% plus industrial volumes. Agra has, I think, lower industrial volumes. Agra industrial and commercial volumes are around 40%. Bhiwandi is around 90%. So Bhiwandi is taking much longer time to recover, partly because of re-imposition of lockdowns also. Agra is coming back quite well.

Abhishek Puri: Sir, on the gas projects, the gas prices have started to move up a little. I think they have fallen also in March, April since lockdown and they have started to move a little it from $1.6, $1.7 to $2, $2.1 now. What are the contracts that we have? We have four shipments for the current year. Is the pricing fixed for that? Any further shipments that we have booked the pricing are fixed or variable. If you can give us color on that, it will be useful. And similarly, on the merchant sales also for the current quarter, if you can spell-out the volumes, and we can see DGEN has improved quite a lot. But is the spread between fuel costs and tariff, has that been lower for us in the current quarter?

Sanjay Dalal: First question is gas tie-up. So gas, for the current year, I mean 2021, we have tied up and all prices are fixed. That all happened even before the outbreak of pandemic. So actually, what happened because of the pandemic (on a normal year basis), volumes would be much lower, both our long-term off-takers will take lesser volumes, and the normal merchant power volumes although would have gone down. So actually, we were suddenly over contracted for gas. And gas, as you know, cannot be stored beyond a point in time. It has to be consumed or disposed off because there is limited storage available, particularly imported gas. So we had to do a lot of juggling to ensure that we do not incur any losses on account of over-contracted gas. And I am happy to report that we have substantially managed the situation without losses and now for the balance of the year, whilst we are fully covered for gas at least we are not significantly over contracted. We would be able to utilize all the imported gas, which we have tied up. And we have rescheduled all the cargoes as compared in the previous period. But based on the rescheduled cargoes, we would be able to operate all our plans based on the new demand as well as fulfill our obligations on the gas contract. So I think your question was whether there is any untied gas for the current year. So no, we have no untied gas for the current year. For the next year also, we have partially tied up some cargoes. And the balance, of course, we will tie up based on how additional clarity, which we get on the demand situation. Yes. So what was your second question, Abhishek?

Abhishek Puri: On the merchant volumes and margins that we would have made?

Sanjay Dalal: I can give you some numbers on that. In Q1 of the current year, we sold almost 921 MUs at an average contribution, net contribution of Rs. 0.38. The comparative is 783 MUs at an average contribution of Rs. 0.69. So number one, if you see the volumes have gone up, and of course, the contribution has gone down because the prices were down. But the volumes have gone up because as I told you, we were over contracted for gas we had to dispose of the gas. So we sold a lot of volume on the power exchange. And fortunately, because of the good price at which we have tied up the gas, we could burn that gas and still recover all our marginal cost of selling it on the power exchange. That was one of the ways we manage the excess gas, which we had.

Moderator: Thank you. The next question is form line of Dhruv Muchhal from HDFC Asset Management. Please go ahead.

Dhruv Muchhal: Sir, the carrying cost claims that you have booked. Now in the annual report, you had mentioned that about Rs. 632 Crores of pending carrying cost claims that you have not recorded in the books. So the amount that you have booked in the current quarter, does it correspond to that? And do we expect the balancing amount also to be recovered, I mean, to be booked in some time?

Sanjay Dalal: The number which we have recorded in the Q1 results is only pertaining to some part of that for which we got a favorable order. I think there is still one major item on which we have not yet received any orders. And that is a balance amount of Rs.328 Crores. So that also relates to the carrying cost, but it is on a different principle on how the carrying cost has to be compounded, when gap is not recovered in time. So when that matter gets resolved and if it gets resolved in our favor, that would be an additional recognition in the period in which we get that order.

Dhruv Muchhal: Got it. Sir, with this order now, I believe you had received another favorable order earlier and with this Rs.344 Crores of order. Is it fair to assume now all the carrying cost issues in terms of the theoretical application of this principle, everything is resolved and GERC will now allow you the carrying costs? Because earlier, I believe it was waiting for the actual order.

Sanjay Dalal: Yes. So GERC was allowing us the carrying cost, subsequent to these disputes also in a manner. So with these disputes now, almost all issues on carrying cost, except compounding part are sorted out. When the compounding part gets sorted out, then there would be no other issues left on carrying cost. But you must also remember that GERC has powers to frame regulation. And now the MYT regulations are up for renewal from next year onwards. I think from there will be a new MYT regulation from next year onwards. So we have to see what they do in that. But I think we cannot exclude the concept of carrying cost but what else they do, we will have to see. But otherwise, yes, we are now clean on carrying cost dispute.

Dhruv Muchhal: Sir, if I take your numbers, so you had about Rs.1000 Crores of regulatory assets, which are pending to be received. So on that Rs.1000 Crores, now you can recognize this say about 8% or 9% as carrying cost, will you accrue this or you will record this only on cash basis? Or you were already recording this as a part your books?

Sanjay Dalal: No. So we accrue this but in a slightly different way. So what happens every year, we get a tariff order. Now in this tariff order, there is a gap, which gets added to the ARR. And on that gap, they allow us carrying costs. So that when we get the tariff order, we record that as carrying cost. It typically would give the carrying cost for two years. So, we will record the amount in each of the years. But we would not record the carrying cost of the gap, which we do our sales true up in the current year. Let me explain it by giving an example. In the year 2019-2020, for example, 2019-2020, the regulator has not seen the actual as of now. But we have done a sales true up for 2019-2020 based on the actual, based on the regulations, past practices, etc., and arrived at sales actual gap, which we have accrued. However, we have not accrued any carrying cost on that. Only when the regulator allows that caring cost, we will accrue it.

Dhruv Muchhal: Sir, the last question, just before the COVID thing happened, any sense that you can give what were you expecting in terms of your T&D losses in Bhiwandi and Agra, say two or three years down the line? Because I am just wondering, we have already reached 10% in Bhiwandi, 11% in Bhiwandi last year and Agra about 12% or 13%. So what is the further scope to squeeze this?

Sanjay Dalal: No. So, if you look at Ahmedabad that is around 6% and Surat is about 3%. Now Bhiwandi and Surat in a way are comparable. Surat also has a very large industrial base in our area and Bhiwandi also has a very large industrial base. So typically, the runway to reduce is still quite long because, as I said, Bhiwandi is 90% industrial commercial, 10% residential. So industrial commercial is either low tension, high to medium demand or high tension consumers, where the losses are typically lower once they are controlled. So, there is still a lot of room to reduce losses in both Bhiwandi and Agra.

Dhruv Muchhal: Okay. So, Ahmedabad and Surat can be considered as benchmark to gauge Bhiwandi and Agra probably?

Sanjay Dalal: Yes. For us, that is the benchmark. We have to reach that level in all areas.

Dhruv Muchhal: That was very helpful Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Aniket Mittal from Motilal Oswal Financial Services. Please go ahead.

Aniket Mittal: Thank you for the opportunity. Sir, one question on the DF business. We have seen a sharp increase in the T&D losses over there and in this quarter, you have said that for the DF, we are expecting a 20% decline in the overall volumes for this year. So could you also highlight on the T&D loss trajectory, how could that pan out for the entire year? And also, could you provide a breakup in the consumer mix, let us say, for this quarter versus the last quarter of the previous year?

Sanjay Dalal: No. The first question was?

Aniket Mittal: First, what I am trying to understand is, you are saying there is a probability of 20% drop in the DF volume for this year, right, Y-o-Y. So, from a T&D loss perspective, what would that number move like given the fact that we have already seen a sharp increase in T&D loss in 1Q? And I am just trying to understand the consumer mix, let us say, what was your consumer mix in 1Q FY 2021 for the DF versus that in 1Q FY2020?

Sanjay Dalal: Okay. So let me give you first the flavor on T&D loss. T&D loss for the year as a whole, we are expecting it to be around 16% in Bhiwandi and about 12.5% in Agra. So, Agra, we would not experience any deterioration. We will probably not improve from what it was last year. Bhiwandi, we will experience some deterioration from 12% to sort of 16% kind. Now so these are our current estimates because there are limitations. I mean, carrying out the revenue protection activities, and that has impacted Bhiwandi. But I think in the year thereafter, we will be back to normal. That is how we are looking at this. Now the second question you said was, what is the consumer mix, right?

Aniket Mittal: Yes.

Sanjay Dalal: In Bhiwandi, Agra? In Q1, you wanted, particularly, right?

Aniket Mittal: Yes. Let us say, if we can compare Q1 of this year versus Q1 of last year?

Sanjay Dalal: I do not have Q1 of last year, but I can give you a whole of last year.

Aniket Mittal: Okay. Sure.

Sanjay Dalal: Okay. I have Q1 of last year also. So let us take Bhiwandi. So Bhiwandi Q1 last year was 90%. And overall also, it is 90%. 90% is other than residential. It would, therefore, mean industrial, commercial, then municipal, water works, etc. And in Q1 of this year, that is current quarter that has been 73%. Agra was 40%. And that in current quarter, it has become 25%. So the mix has changed.

Aniket Mittal: Just can you correlate between further mix is going and how your Bhiwandi losses are moving?

Sanjay Dalal: The mix has changed. And therefore, the percentage T&D loss is higher. I will just give you some simple additional explanation. The percentage is higher because the high T&D loss customer base has remained the same. And the low T&D loss customer base has come down in the mix proportion. So, the percentage T&D loss is higher. Otherwise you must also remember that the unit sent out have also gone down because the demand has gone down. The actual absolute units lost in T&D are, therefore, relatively lower, both in quantum as well as in value. But nevertheless, there are losses.

Aniket Mittal: Understood. Sir, another question was on this regulatory number itself. So we currently have at the end of FY2020 about Rs.1000 Crores. Now given that the new tariff order for 2021 is not yet out, how do you see this number moving? Would that be another regulatory gap that will be created this year?

Sanjay Dalal: Tariff order for 2021 is already out.

Aniket Mittal: But it does not take into account the fact that power decline, right?

Sanjay Dalal: Yes, exactly. The tariff order is out, but it is based on a normal demand assessment and now that has completely changed. So, what will happen on an overall basis is that we were otherwise expecting a revenue surplus for 2020-2021. So, 2019-2020 also was a year of revenue surplus. 2020-2021 also, you were expecting revenue surplus. When I say revenue surplus, I mean that the standalone ARR for the year would be recovered, and there would be additional recovery towards past year. Now the situation for 2020-2021 will certainly change. The revenue surplus is not likely to happen. Actually, we will end up with some regular revenue gaps, which mean that for 2020-2021, we will not be able to recover our stand-alone ARR for 2020-2021. We will recover less, and there will be a creation of regulatory gap.

Aniket Mittal: So Sir any quantification that you have done, as to what that cap is?

Sanjay Dalal: It is very dicey to give, but I can give you a very, off the cuff number. I think the overall gap assessed would be anywhere between Rs.80 Crores to Rs.100 Crores.

Aniket Mittal: Sir, just continuing on this point. Sir, given the fact that the overall imported prices has gone down. Are we looking at changing our mix? I am just trying to understand, we would have locked in certain gas prices, certain gas contracts at a higher price? Are we looking at that to, let us say, benefit somewhat on the power purchase front?

Sanjay Dalal: So we have now two main sources of gas sources. One is contract with RLNG contract with IOC and the second is imported LNG. So, the dominant source is imported LNG. Any price reduction happening there, of course, benefits us in terms of reducing our fuel costs. In terms of tie up, as I said that whilst we have tied up 2020-2021, obviously for the year 2021-2022, we have only partially tightened the gas. One of the reasons we are going slow in 2021-2022 is that we want to be sure of the demand scenario emerging for 2021-2022 because we do not want to unnecessarily over contract the gas. And the current situation in the LNG market is helping us do that because the prices have been very soft and the pandemic effects are likely to remain soft for the next three to five years at least. So we will be cautiously tying up gas, and we hope to benefit continuously from the soft LNG market there.

Moderator: Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Good morning Sir. I have two questions. So first is on Sir, is there any force majeure clause in Bhiwandi and Agra? Of course, I believe that is not there in the earlier contract but is there any force majeure clause likely recovering COVID in the Shil, Mumbai Kalwa.

Sanjay Dalal: No. But force majeure, meaning in whose favor?

Mohit Kumar: Base demand has gone sharp down. Is it available to us?

Sanjay Dalal: No. There is no protection. There is no force majeure. We took over on March 1, 2020, so thereafter, it is our baby. There is no force majeure.

Mohit Kumar: Second on the collection efficiency, you spoke about 85% Bhiwandi and 15% Agra. Is there, I think the AT&C losses which reported in the PPT, this will account for this collection efficiency, right?

Sanjay Dalal: No. In PPT, we are giving only T&D losses,Not the collection efficiency losses.

Mohit Kumar: It is a reflection of a T&D loss, am I right?

Sanjay Dalal: T&D loss. What we are reporting in the PPT is T&D loss, not AT&C loss.

Mohit Kumar: Lastly, you have mentioned that there is a 2.5 billion of recovery for the prior period as perhaps the recent judgment for the past period. Sir, can you just please help reconcile 2.5 billion, which you reported in those three accounts. Number two, with the 3.4 billion which you spoke earlier accruing?

Sanjay Dalal: There are two components. One is the carrying cost or any other regulatory gap which we have got and second is the tax allowance there on because when you get the regulatory gap and when you recover it, you will also have to pay tax on it. So, you will get the tax allowance also under the Gujarat tariff regulation. One major item of revenue gap of earlier years was this Rs.251 Crores of carrying cost but in addition to that, there were certain smaller amounts, also which we have one in appeal, which I did not speak about, but that all put together is about Rs.34 Crores. So Rs.251 Crores plus Rs.34 Crores is the revenue gap which we got. And the tax allowance thereon has to be then further considered. Now the tax allowance is typically 17.47%. So you gross this up with 17.47% and you get the pretax number, which you will get, right, as revenue and in addition to that, this is offset by the waiver of fixed charge, which also have included as a one-off item for the month of April, which was a Rs.50 Crores number on which there will be a tax impact of another Rs.10 Crores. So that is Rs.61 Crores. If you total all of this up, you will get the number which I said.

Mohit Kumar: Thank you Sir.

Moderator: Thank you. The next question is from the line of Rahul Kohli from SNIFS. Please go ahead.

Rahul Kohli: Thanks for taking my question. Sir, my question is regarding your capex, which you have announced for Rs.1500 Crores for three years. In that, I wanted to understand this capex is used towards increasing T&D transmission capacities? Or it is like regular maintenance kind of capex? I wanted to understand.

Sanjay Dalal: This capex, which I spoke about is largely is in the licensed distribution area, which is made up of multiple categories. So, something is related to network augmentation, something is related to safety and reliability, something is related to replacement, there are some special projects which we are carrying out. So, it is all related to the network upgradation and network expansion.

Rahul Kohli: Okay. So it includes expansion also?

Sanjay Dalal: Load increase and network expansionboth, are included.

Rahul Kohli: Thank you Sir. That is it.

Moderator: Thank you. The next question is from the line of Avinash Chenna from Spark Capital. Please go ahead.

Avinash Chenna: Thank you for the opportunity. Sir, most of my questions on the demand and capex guidance has already been answered. Couple of questions; first one, directionally, power is not too different from anything like a state GENCO. So, in that context, just wanted to understand whether generation interests are more important from the state by and the PPAs will be a dominant route? Or will Torrent Power, ever think of buying most of the power of all are in day and/or real time market, which were launched recently?

Sanjay Dalal: No, I did not get your question. Can you repeat it, please?

Avinash Chenna: Sir, I just wanted to understand the states interest towards generation will PPA route continue or Torrent Power will be buying most of the power from day-ahead market or RTM market on exchanges?

Sanjay Dalal: So you are talking of the power, which we have to buy to supply to our distribution areas?

Avinash Chenna: Right.

Sanjay Dalal: For our license distribution areas, we have to buy certain amount of power on a long-term basis. We have to buy certain amount of power from renewable sources and normally, the day-to-day fluctuation which happens, because the demand keeps fluctuating depending on so many factors, which are unpredictable the balancing power we buy from the day-ahead market or the short-term market. So, since our obligation to supply power is firm, we have to tie up our base load on a long-term basis. And we have to tie up a certain proportion of power, which has to be some renewable sources and only the balance power is then tied up from sources like day-ahead market or short-term market, which is typically used to balance the day-to-day fluctuation in demand, which happens. And this all gets sort of regulated by a framework on how power obligations will be serviced by the licensed operator. So, we cannot really arbitrage between long-term market and short-term market, given the nature of our obligation.

Avinash Chenna: Sir, also on exchanges, are we going through a trader or be ourselves as a trader member? And also, are we participating on both the exchanges or we are doing this currently on one of the leading exchange players?

Sanjay Dalal: We are a direct member. So, we buy and sell directly. We do not go through a trader. But whenever we are selling merchant power from a generator unit selectively, we may go through a trader if we are not very comfortable with the counterparty DISCOM, which is buying the power. Now as so far as participation in the exchange is concerned, there is only one exchange which is liquid enough, where the prices and volumes are reasonable so we are on that exchange only IEX.

Avinash Chenna: Thank you.

Moderator: Thank you. The next question is from the line of Aniket Mittal from Motilal Oswal Financial Services. Please go ahead.

Aniket Mittal: Thank you for the opportunity again. Sir, could you provide us with the segment-wise profitability breakup for this quarter versus last year?

Sanjay Dalal: Can I give you at the EBITDA level?

Aniket Mittal: Sure.

Sanjay Dalal: If I take gas-based generation, it is Rs.204 Crores versus Rs.187 Crores, roughly. If I take renewable it is more or less the same, Rs.185 Crores versus Rs.175 Crores. Distribution is more or less same Rs.241 Crores versus Rs.240 Crores and franchise distribution is Rs.39 Crores versus Rs.217 Crores at EBITDA level and then there are various other adjustments. Overall, EBITDA is Rs.718 Crores versus Rs.856 Crores, without one-off. These are adjusted numbers, I have taken out all the one-offs.

Aniket Mittal: Yes. That is very helpful. Sir, sorry to hop back on the gas part so what I am actually trying to understand is, one, how much of your, let us say, current sourcing of gas happens on a long-term basis? And how much you are doing on the imported front, in terms of the short-term basis? And what is the price differential over that? Because just trying to understand, let us say, if you move towards the shorter-term would that help you in lowering your power purchase costs? And in turn, you would lower the regulatory gap that we can have because the tariff would be fixed?

Sanjay Dalal: Firstly, you must understand that gas-based generation plants are regulated by CERC regulation. and distribution circles are regulated by GERC regulations, so the tariff for the gas-based power plants are fixed under the CERC regulation. And the tariff for the distribution circles is fixed by the state regulation. So far as the gas-based generation plants are concerned, they are agnostic to the fuel price because it is a pass through cost for them. That does not mean that we should not buy our fuel on a competitive basis. We are expected to do that, and we do that. And whenever we buy fuel at lower price, it helps us keep the overall price of electricity much lower. That helps us in our distribution circle, because if our supply of electricity is at a lower price, it helps in recovery of the ARR for that year as well as gap for the previous year. But it does not affect the profitability of either of them because the fuel cost is on a pass-through basis for both segments. Now so far as long-term tie-ups are concerned, there is one long-term contract which we have from earlier times when we have started the plant, we had tied up some portion of the gas as RLNG from one of the national oil companies. So that was a long-term contract we had tied up, and that is there. But since that was an approved contract by the regulator, we are allowed to pass through the costs on a year-to-year basis for that source. The balance source at that point in time of domestic gas, which over a period of time dwindled and it is now no longer available. So, over a period of time, we have sourced the entire quantity by imported LNG. So today, substantial gas comes from imported LNG. So far as tie-up is concerned, the general framework, which we follow, is that we try to tie-up 3 years of gas because fuel security is also one of the considerations. But that is not sort of casting stone. Since last two years, the situation in the LNG market has completely changed. And our reading as well as the general consensus is that LNG market will remain subdued for next three to five years; given the new capacities, which are coming up, given the growth in demand, which was likely to happen and given the impact of pandemic on the demand now. So, given that situation, we have sort of shortened our horizon. So today, we are contracted for the current year, and we are only partially contracted for the next year. We keep watching the situation both on the price front as well as on how the demand for electricity pans out before we tie up the additional gas, so that we can have an optimal quantum tied up at the best possible price.

Aniket Mittal: Sir, one last question, if I may, on Shil, Mumbra, Kalwa franchise. So how is the performance in this quarter? And from an overall, let us say T&D loss trajectory, I think the T&D losses over there are pretty high. So, within a couple of years, what is the trajectory that you are looking at, let us say, from FY2023 perspective?

Sanjay Dalal: If I look at this quarter, it is the first quarter since we took up and substantial part was under lockdown. So obviously, we could not do much in that area. So that area has turned in a loss for the quarter. But not a big loss, it is about Rs.17 Crores of loss. So far as T&D losses are concerned, it is a high T&D loss area. I think it is about 53% or 54% of T&D losses when we took it over. As to the trajectory, I think we had earlier expected of taking it down to 12% over a period of 15 years. That is how we are looking at it. We have of course, plans to do it much faster, but this is how we are looking at it.

Moderator: Thank you. Due to time constraints, I would now like to hand the conference over to Mr. Harsh Dole for closing comments.

Harshavardhan Dole: On behalf of IIFL, I would like to thank the management for sparing their time and briefing the investors on 1Q and sharing perspective for the rest of the year. Greatly appreciate, Sanjay Bhai. Thank you, everyone, for logging on to the call. Sanjay Bhai, any last remarks that you would want to make before we conclude the call?

Sanjay Dalal: No. I think we have covered everything. So I am done.

Harshavardhan Dole: All right. Thanks, moderator.

Sanjay Dalal: See you all in Q2, hopefully, in better times.

Harshavardhan Dole: Thank you. Moderator, please conclude the call.

Moderator: Thank you. On behalf of IIFL Securities, that concludes today's conference call. Thank you for joining us. You may now disconnect your lines.