“Torrent Power Limited
Q3 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY2021 earnings conference call of Torrent Power Limited, hosted by IIFL 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Harshavardhan Dole from IIFL Securities Limited. Thank you, and over to you!

Harshavardhan Dole: Thank you, moderator. Good morning. Greetings to everybody. On behalf of IIFL Securities I welcome you all for the third quarter earnings call of Torrent Power. Today to discuss the detailed results with us, share the performance outlook we have the senior management team of Torrent Power. Today, we have Mr. Saurabh Mashruwala, VP, Finance; Rishi Shah, GM, Finance; and Jayprakash Khanwani, Manager, Finance.

I would request Saurabh bhai to make opening remarks, subsequent to which we can open the floor to the Q&A. Over to you Saurabh Bhai!

Saurabh Mashruwala: Thank you Harsh. Good morning to all of you. Thank you for joining the earnings call of Torrent Power for Q3. We will take you through the performance of the quarter first and thereafter the phone lines will be open for the Q&A session.

We will first explain the PBT level and then tax expenses will be taken up separately.

Reported PBT for the quarter is 399 Crores as compared to 315 Crores reported in the corresponding quarter last year, i.e. higher by about 84 Crores roughly 27%. Here we would like to highlight that against degrowth witnessed in the earrings during the first half of the current year, the company has registered a PBT growth of 27% during this quarter. If you recollect during the first half, the pandemic had impacted our franchise distribution business. The volume was lower, T&D losses also shot up and it had impacted the collection efficiency as well. All three drivers of the franchise distribution business have recovered during the course of the quarter and we have shown much improvement in the franchise distribution area.

I will now explain the effect of two non-recurring items during the quarter to understand the underlying performance of the company. The first non-recurring item, as I said earlier, is that there was a marked improvement in the collection efficiency in franchise distribution business due to revival of economic activities and increased vigilance activities by the company, which resulted in recovery of the past overdue of 31 Crores for the quarter. If you recollect, in Q4 last year we had provided about 48 Crores of bad debt provision and in Q2 this year we had provided about 91 Crores of bad debt provision. In total about 140 Crores of bad debt provision has been provided for our franchise distribution business, out of which we have recovered about 31 Crores in Q3 and we expect that a significant amount of the balance provision would be recovered during the next three quarters.

The second non-recurring item is, as we explained in the last quarter, in Q2 there was 42 Crores of fuel cost under-recovery in our UNOSUGEN project, that has been recovered in Q3; however another under-recovery of 37 Crores has generated for UNOSUGEN project, which will be recovered in Q4. The net effect of these adjustments is about 5 Crores positive gain in the current quarter. So both put together, we have a net non-recurring credit of about 36 Crores for Q3. There was no non-recurring item for the comparable quarter of the last year. Considering these two non-recurring items, adjusted PBT for the quarter stood at 363 Crores as compared to reported PBT of 315 Crores for the corresponding quarter of the last year, which is higher by about 48 Crores roughly 15%.

Adjusted PBT in current quarter is higher by about 48 Crores mainly on account of three reasons, which includes:

reduction in the finance cost by 45 Crores, which is mainly on account of reduction of absolute debt amount and rate of interest by 140 bps during this quarter as compared with the corresponding quarter of last year.

The second reason for better performance is higher operational capacity of renewable plants. Our average operating capacity for the quarter is higher at 737 MW as compared with 663 MW during the comparable quarter of last year, which has resulted in improving the PBIT by 14 Crores;

Better performance has been partially off set by lower merchant sales during the quarter. So there is an impact on the merchant volume as well as merchant contribution, which has negatively impacted our PBIT by 14 Crores.

So all put together, there is a net increase of about 48 Crores in the adjusted PBT number for the current quarter.

As I said that there has been a marked improvement in the operating performance for the quarter on a quarter-to-quarter basis reflecting improving condition of the economy. This can be reflected from the fact that the year-on-year demand degrowth of Q3, of our distribution license business was at 1%, and the franchisee degrowth is about 3% as compared with 15% in our license distribution and 18% franchisee distribution in Q2.

Moving on to PAT number. Consolidated PAT reported for the quarter is about 320 Crores as compared with 416 Crores in the corresponding quarter last year, which is lower by 96

Crores or about 23%. This is mainly on account of the onetime credit we received on account of reduction in the MAT rate from 21.55% to 17.47%. So because of the tax credit available during the corresponding quarter of last year,we have recognized credit during the course of the last quarter. This completes the overview of the performance. Now we request you to open the Q&A session. I am handing over to the operator for the Q&A session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Subhadip Mitra from JM Financial. Please go ahead.

Subhadip Mitra: Firstly, just wanted to understand what would be the absolute debt level as of now vis-à-vis last quarter?

Saurabh Mashruwala: The debt level as on December is about 8400 Crores as compared with 8600 Crores on September, a reduction of about 200 Crores.

Subhadip Mitra: Okay. Secondly, also I wanted to understand that are we looking at more renewable additions coming up in FY2021 and 2022 and then, when are you expecting these to come up? And how much of your, or the invested equity would go up because of this?

Saurabh Mashruwala: We are keen on solar side and not much on the wind side. . For solar, we are evaluating the proposal on a selective basis, and are participating in the bidding. So we have participated in the GUVNL bidding, and we have also participated in the Andhra Pradesh bidding..

Subhadip Mitra: Okay. Is there anything that is currently a work in progress, which you are expecting to come up in the next, say, 12 or 18 months?

Saurabh Mashruwala: A couple of bids are expected to come up for example, our own discom is coming with bids to meet their RPO obligation. Couple of other bids we are considering are Madhya Pradesh and Rajasthan. We will evaluate each proposal separately and then participate in the bidding.

Subhadip Mitra: Understood, but those would be for future bids, but the ones that you have already won like this GUVNL bids, etc., so when are you expecting that to get commissioned?

Saurabh Mashruwala: GUVNL is about 18 months. So about 18 months to commission the project, and similar to that will be for the AP also.

Rishi Shah: But I think, just to add to that, it is right now subjudice, so it would be difficult to tell when the period will start.

Subhadip Mitra: Understood. Okay and GUVNL one you are looking at of 30% kind of equity?

Saurabh Mashruwala: Yes.

Subhadip Mitra: Okay. Last question from my side would be on the distribution side. With more opportunities coming up, how do you see that space opening up? And where are probably the opportunities that you would be seeing?

Saurabh Mashruwala: The Government has shown their intent to privatize the Union Territories. So Daman and Diu, everybody has bid already. Even Chandigarh also bidding has happened, and we are waiting for more Union Territories to come. So we have submitted the bid in case of Daman and Diu and Chandigarh also.

Subhadip Mitra: Understood any indicative capex that one might think of about these areas?

Saurabh Mashruwala: Once the bidder is announced and after that the plan will be finalized.

Subhadip Mitra: That is it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Mohit from DAM Capital. Please go ahead.

Mohit Kumar: Congratulations for a reasonably good quarter, sir. Sir, first question, sir, how is the demand fare in January 2021 for our all the DISCOM area. If you not giving the exact figure, can you just give a qualitative-enough picture?

Saurabh Mashruwala: If you look at our Q2 demand, the degrowth was about 15% in the license distribution area and 18% in the franchise distribution area. In Q3, it has improved to minus 1% in the license distribution area and minus 3% in the franchise distribution area. We expect that the January demand will be almost on a similar level as compared with last year. So roughly at same level, I would say.

Mohit Kumar: And has the collection efficiency improved further in January 2021, especially in the Bhiwandi?

Saurabh Mashruwala: The collection efficiencies in case of Bhiwandi and Agra, which was 107% in Q3, which has improved, it will be on a similar level, I would say, in the month of January as well.

Mohit Kumar: Understood. Sir, last question, sir, can you just give a breakup of EBITDA business-wise, which you used to give in previous quarters?

Saurabh Mashruwala: EBITDA business-wise, you want EBITDA or PBIT?

Mohit Kumar: Anything, sir, EBITDA.

Saurabh Mashruwala: EBITDA in the gas-based project is about 218 Crores for the current quarter. In the comparable quarter was about 239 Crores, and for our renewable business, it is about 129 Crores for the current quarter and comparable quarter of last year is 110 Crores. License distribution business, it is 327 Crores for the current quarter , and comparable quarter is about 322 Crores. Our franchisee business is at 197 Crores for the current quarter, and it remains at the same level for the comparable quarter last year. The franchisee business has recovered well, and it has reached the same level of the last year. So these are the segment-wise EBITDA breakout of the company.

Mohit Kumar: Thank you sir. Best of luck. Thank you.

Moderator: Thank you. The next question is from the line of D. Anand from White Oak Capital. Please go ahead.

D. Anand: Sir, 2 questions from my end. First is I think there is an ROE revision due in 2023, and is my understanding correct? And if yes, then can you give me a sense of the various business segments that we operate in that might come under this ROE revision?

Saurabh Mashruwala: As of now, there is no mandate from GERC for the revision of the ROE.

D. Anand: Okay. So this in the foreseeable future, we do not expect any changes in the regulated ROE for any of our segments.

Saurabh Mashruwala: It depends on the new MYT regulations coming in. They have postponed the MYT regulations by 1 year.

Rishi Shah: So, Anand, it is Rishi here. Just to add to what Saurabh bhai told, so this ROE on generation and on distribution is covered by separate regulators. So our generation is covered by CERC. Last year they announced a 5-year MYT regulations, wherein they have not changed the ROE regulation. So for next 5 years, that will remain the same for our generation portfolio is concerned. As far as our distribution portfolio is concerned, it is covered under GERC norms, and our GERC/MYT regulations are supposed to come in this year, which has been deferred for 1 year, but we do not expect any change in the base ROEs, which have been given to us till date, and if you compare it with all India ROEs, it is one of the lowest in the country. So our expectation is that it should not change as far as ROE for our distribution business is concerned.

D. Anand: And sir, with regards to the broad opportunity in the sector for next, let us say, 3 years, which area do you see maximum capital allocation? And how do you see next 3 years for us as a company?

Saurabh Mashruwala: We are very keen on Union Territory privatization, so that is one opportunity we are looking at. Second we are looking at the solar projects, where we are evaluating various proposals, and so solar is our next opportunity, and third is the transmission projects. These are three areas which where we are looking at to invest further capital.

D. Anand: Sir, in privatization, the first one, can you elaborate? Like, is it, which particular privatization are we eagerly...?

Saurabh Mashruwala: We have participated in the Daman and Diu Union Territory. We have also participated in Chandigarh and as far as Capex is concerned, it is generally spread-out Capex and not upfront Capex like thermal and renewable projects. For example, Bhiwandi and Agra, which we have taken over, our Capex spending there is spread out. So similar kind of Capex we have to invest in this kind of Union Territory also i.e. in a phased manner.

D. Anand: Okay, and in distribution, I imagine, we have some auctions that are planned. Any particular sense on where you have not mentioned distribution franchisee in that capital location for next 3 years?

Saurabh Mashruwala: Any new franchises, which will come, probably, we will evaluate it, but as of now, these 2 Union Territories we are looking at.

D. Anand: Okay, and there has not been any formal announcement by any state or any particular cities or there is not a planned road map in terms of privatization.

Saurabh Mashruwala: Not yet by any state government as of now.

D. Anand: Thank you I will come back in the queue.

Moderator: Thank you. The next question is from the line of Manali from Centra Advisors LLP. Please go ahead.

Manali Vora: Sir, I have 1 question. I just want to understand what would be the cost of your gas for this quarter, imported gas?

Saurabh Mashruwala: It is about between $5 and $5.50.

Manali Vora: Okay. Imported gas is on spot, and how much is contracted?

Saurabh Mashruwala: See, for long term obligations we do not contract on a spot basis. So it is about $5.50.

Manali Vora: Thank you sir that is it from my side.

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

Aniket Mittal: Sir, just firstly, on the DF front. To a clarification from the EBITDA number that you mentioned for DF, which is 197 Crores at the same level, does this include the 31 Crores of recovery?

Saurabh Mashruwala: No.

Rishi Shah: This is an adjusted number.

Aniket Mittal: Okay. This is an adjusted number. Okay. Got it, and just to get some clarity in terms of how do we see demand panning out within the DF segment for FY2022 and our view on the AT&C loss trajectory over there?

Saurabh Mashruwala: I think it is difficult to give you an exact number on demand projections. On an average, if you look at for past, some years the demand has been growing at around 3% to 4% on a year-on-year basis. Now if there is some pent-up demand, there could be an increase in demand for next year, but it is very difficult to tell any numbers per se as of now. As far as AT&C number is concerned, YTD AT&C of Bhiwandi is about 17.31% and Agra is about 18.55%. We expect that these numbers will go down during FY2022, and our aim is to settle around 12% to 13%.

Aniket Mittal: 12% to 13% for both Bhiwandi and Agra?

Saurabh Mashruwala: Yes.

Aniket Mittal: So my next question was on the capex front. If I have a look at your recent addition that you made in GERC, you are projecting a Capex of around 1700 Crores for Ahmedabad and Surat. So just wanted to understand the reason for this high capex, is it because of some pent-up capex that would come on board? And at an overall group level, what is the capex that you are expecting for FY2022?

Rishi Shah: Well, I think if you look at this year, and if you look at the estimates, which we had given earlier also, we are expecting capex of 1500 Crores, broken up into 1200 Crores and 300 Crores for distribution licensee and franchise distribution business on a year-on-year basis. If you look at this year, our Capex spend, it would be lower than the numbers which we had given because of lockdowns being enforced and we have not been able to do much of capex, and that is why you are seeing a higher capex amount in next year, which is basically to take care of the capex, which we have not spent in this year, but the estimate remains same that

1500 Crores on year-on-year basis for the next 2 to 3 years for our distribution license and franchise distribution businesses put together.

Aniket Mittal: So just to get a sense on the FY2021 then, what is the Capex that you are looking for FY2021, particularly on the DL front, the distribution license?

Saurabh Mashruwala: Yes, sure. On Capex front, Actual numbers up to Q3, is about 650 Crores for license distribution and about 125 Crores for franchisee distribution. This is the actual number for Q3. We expect that the licensed business will be about 900 Crores for the full year, and the franchisee would be roughly about 225 Crores.

Aniket Mittal: Sure and just one on the renewables, given the fact that we signed a PPA and we are going to construct these 100 megawatts of plant in Gujarat, what would be the Capex related to that renewable project? And how would it be phased out in FY2022 and FY2023?

Saurabh Mashruwala: The Capex expectation is around 380 Crores to 400 Crores for the 100-megawatt solar project, which we have recently won from GUVNL, and the major part of the Capex will be done in end of Q3, Q4 of the FY2022 and some part will spill over to FY2023.

Aniket Mittal: Okay. So majority of that will come in 22. Got it, and sir, just one word, I want to understand if there is any update on AMGEN. We are now, I think, less than 20 months away from the December 2022 deadline. And at the government level, I think there has been a bit of back and forth in terms of the implementation of those norms. So do we see AMGEN having to retire by December 2022?

Saurabh Mashruwala: So it is difficult to tell as of now. It is a status quo. We are discussing this with relevant people, but as of now, there is a status quo. It is difficult to tell as of now anything on that.

Aniket Mittal: Okay, and sir, maybe just a related point to understand from your distribution, let us say, license business. We do procure a decent amount from AMGEN, right? So in a scenario, let us say, where AMGEN retires, would you have to make a call for a new long-term PPA?

Saurabh Mashruwala: We have to invite the competitive bid for the shortfall in license distributing area.

Aniket Mittal: Sure, but you would be making a new call for a long-term PPA to get that filled, if in a scenario, let us say, where AMGEN retires?

Rishi Shah: No. So if you look at the AMGEN capacity, 362 megawatts, it is easy to take it from the merchant market, but we will take a call at that point in time, whether to invite for a long-term PPA or right now to carry forward with buying it from merchant market or on a short from basis.

Aniket Mittal: And just 1 clarity again on that. Let us say, if you were to make a call for a long term PPA, is there any obligation for you to do that for a renewable plant to meet your RPO obligation? So what I am trying to understand is, let us say, AMGEN retires and you decide to make a new long-term PPA. Could that necessarily have to be a renewable-led capacity to meet your RPO obligation?

Saurabh Mashruwala: No,. the RPO obligations are based on the number of units you sell in a particular area. So if you sell 1000 units, there are percentages defined from different sources for which we need to comply with. So it has nothing to do with AMGEN retiring, and I am, taking up a new PPA. Those are different events.

Aniket Mittal: Sir, the reason why I was looking at it, if I look at your recent tariff order, I think your overall purchases for renewable from an FY2022 perspective that your petition comes to around 11%. So I was wondering if you are planning to increase this 11%, let us say, to 14%, 15%, that could possibly mean that you may have to tie up for long-term PPA on renewables.

Saurabh Mashruwala: No, no. So that is a separate thing. That is why our DISCOM has already come out with a tender for 300 megawatts for solar purchase. So what I am trying to say is that is a separate event. It is not linked to AMGEN decommissioning. In any case, you have to follow that.

Aniket Mittal: Understood. Sir, just 1 question that I wanted some clarity on, I think, like you mentioned, the MYT regulation has been delayed by 1 year. So now we are looking at an MYT regulation coming from FY2023 to 2027, and incidentally, I believe the initial license of our Ahmedabad business is valid till 2025. So before the MYT regulation comes in, is there any talk over the extension of this Ahmedabad distribution license?

Saurabh Mashruwala: No, no. So there is no such thing as extension of license. MYT regulations are completely disconnected with the license expiring or not.

Aniket Mittal: Okay, and the reason I think, let us say, the MYT comes in for 5 years, right, it would be cognizant of the fact that who the operator within that area would be. Just wondering...

Saurabh Mashruwala: MYT regulation is for all the distribution licensee companies and all the generating companies in that particular area. So whosoever may be the licensee, it applies to all the license holders there.

Aniket Mittal: Okay, and sir, I think license in Ahmedabad expire at 2025? So would that get extended?

Saurabh Mashruwala: So as I said, there is no provision of extension of license.

Aniket Mittal: Thank you.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: We have seen some plants are dependent on imported LNG. Can you first, let me know what percentage of our gas is domestically sourced? And also, what is the increase in LNG price? How does it affect us? And typically, long-term contracts that we do well for how many months or years?

Rishi Shah: Jayeshbhai, this is Rishi here. So just to give you an answer on the sourcing part of our LNG. For our PPA liabilities and for SUGEN plant, we have a long-term contract with IOCL for nearly 20% of our requirements. We have also recently bought some gas from Reliance when it was auctioned. So around 20%, 25% of gas comes in from IOCL and Reliance. For balance, requirements for our PPA liabilities is procured from international markets. As far as current sourcing is concerned or current contracts are concerned, we have nearly tied up for all our PPA liabilities for next year, which is FY2022, at an average price of around $4.

Jayesh Gandhi: Okay, and one last question from my side is, what is the reason for T&D losses rising?

Rishi Shah: If you look at Q1 and Q2, the T&D losses have gone up, the major factor being the mix change. So let us say, if you have higher industrial demand and a lower retail volume, you will tend to have lower T&D losses, but if that mix changes and it goes towards more of retail and less of industrial, the T&D losses tends to shoot up because technically, the high-tension electricity consumers would have lower losses compared to a low-tension consumers. So if you look at Q1 and Q2, that was, I mean, in that area, industries were under lockdown, and that is why there is no consumption from industries, and that is why the T&D losses were up. If you look at Q3, they have significantly gone down because industries have started coming up back, and that mix is, again, going back to the original levels which we have seen in FY2020.

Jayesh Gandhi: That is all from my side sir, best of luck for future.

Moderator: Thank you. The next question is from the line of Devang Modi, an individual investor. Please go ahead.

Devang Modi: So first, just wanted an update on the DGEN plant. We understand that it is completely, I mean, right now, obviously, the 3Q, there is no demand so the PLF is not there. Going ahead, what are the various options in terms of demand rise or whatever it can happen and in which regions. In terms of Gujarat, clearly has a demand/supply equation, which is not going to be friendly for DGEN. How does it shape up on a regional basis for DGEN and how do we look at ramping that up?

Rishi Shah: So sorry, Devang, I just lost the last part of your question. If you can just please repeat that?

Devang Modi: What are the various options before us from, let us say, a 1-year to 5-year perspective to ramp up DGEN? And how does that look going ahead?

Rishi Shah: So DGEN, as we had discussed in the last call also, DGEN, on a short-term perspective, we do not expect any long-term PPAs to come in for that plant. So for a short term to medium term, it would operate for a merchant capacity, and slightly from a medium-term perspective. After 3 to 4 years, we expect that there could be some long-term PPAs, which would start coming in because of various factors playing out in the market. So let us say, higher renewable capacity into the grid, which would require these power plants to be there, in fact, base demand also is expected to increase, which will require non-operating plants to start functioning. So all those factors putting in, I think, on a slightly medium-term basis, we expect that there could be some long-term PPAs that will start coming in. Right now, if you look at the last 3 to 4 years or 5 years, there has hardly been any long term PPAs which have been signed.

Devang Modi: So what you mentioned regarding the renewable part, I think you also mentioned in your investment rationale slide in the presentation that there is a flexible generation point which can come in. So what would be the tipping point? I mean, at what level of renewable generation in a grid would that happen because we have been thinking of this since quite a period of time. Till now, obviously, we do not think any such arrangement has come in wherein, apart from I think NTPC's arrangement, but probably no other such arrangements are coming in, and probably, the government was also supposed to come up with a framework on this. So how is it looking on that front? How much time would it have to lapse before something like that would come in? And what percentage of renewables in the grid needs to be there for something like that to come?

Rishi Shah: So Devang, basically, it is, NTPC, what you referred to NTPC was basically on a pilot basis, they had been doing this. So those outcomes will come, and then I think government should form a policy on this. It is difficult to tell when it will come out, but bundling of power is definitely possible, and it should work. Now at what levels of renewable capacity into the grid, I think around 15% and more, you will start seeing that the grid becomes, it becomes not stable. So after that, I think there should be some requirement of this kind of spinning reserves available for the grid to maintain its stability.

Devang Modi: So probably one in terms of grid instability due to high renewable power would lead to a trigger for doing something like this?

Rishi Shah: I cannot comment on it, Devang, right now.

Devang Modi: And generally, just one thought on, if there are electricity futures, which I think MCX has just launched yesterday and the presence of IEX itself; does that help us in any way in terms of launching small volumes on DGEN? Or is that completely immaterial in terms of the volumes right now?

Rishi Shah: DGEN right now non-operational. It s difficult commercially to start a non-operational plant for, let us say, 3 to 4 hours or 5 hours. You need to have a strong visibility, for at least for 15 days or 30 days, for RTC power to become commercially viable to start a non-operating plant.

Devang Modi: Okay, and what kind of volumes, sales and EBITDA can be expected from the Shil, Mumbra, and Kalwa over the next couple of years?

Rishi Shah: So I think Shil, Mumbra, Kalwa, the demand is around 50 megawatts. We should see a, growth at 4%- 5% kind of a range, but it is a small area. So it will not change much.

Devang Modi: 50 MUs or 50 megawatts?

Rishi Shah: 50 megawatts.

Devang Modi: What would be the current gross debt, cash and net debt?

Rishi Shah: Pardon?

Devang Modi: What would be the current gross debt, cash and net debt?

Saurabh Mashruwala: Current gross debt is about 8400 Crores as on December, and cash is about 1000 Crores.

Devang Modi: Okay. So this includes the cash equivalent investments also?

Saurabh Mashruwala: Yes, yes.

Devang Modi: Okay, and finally, in the wind asset that we have bid at 1.99, what is the expected ROE and what kind of PLFs does it factor?

Rishi Shah: So we are expecting ROEs in low teens for this project, the PLF of which, we are expecting is around 27%, 28% on AC basis.

Devang Modi: That is it from my side.

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

Jiten Rushi: 2 questions from my side. Sir, can you give us the Q3 T&D loss for Bhiwandi and Agra and also the T&D losses for Ahmedabad and Surat Q3?

Saurabh Mashruwala: The losses, this is an YTD basis because of Q3 is not relevant. So YTD basis is 5.84% for Ahmedabad. Surat is 4.09%.

Jiten Rushi: Sir, that is available on the presentation. If at all possible to give otherwise, it is okay, sir. No problem, and sir, on this SMK, what were the losses for Q3? And how it is going to be going forward?

Saurabh Mashruwala: SMK, T&D losses is 42%, for Q3, and as a trajectory would be, sir, we will keep on improving that, but right now, this was handed over to us in February of 2020. Post it, there was an imposition of lockdowns and because of COVID, we have not been able to do much in that area. But as per our estimate, it will take 3 to 4 years for us to breakeven in this area.

Jiten Rushi: So any similar number for Bhiwandi, Agra for Q3 losses if possible? Or we take it off-line?

Saurabh Mashruwala: Bhiwandi Q3 T&D losses were 14.43% and Agra is 4.7%.

Jiten Rushi: And sir, on the receivables front, obviously, receivable, it seems to have improved. So what would be the receivables that are presented or that are based probably 31 December?

Saurabh Mashruwala: Sorry, can you please repeat again?

Jiten Rushi: Receivables must have improved because we are seeing repayment of gross debt coming down. So what would be the outstanding receivables and the breakup of the overdue amount of more than 45 days or 3 months to 6 months?

Rishi Shah: We do not have that number handy. Can we get it to you off-line?

Jiten Rushi: No worries, and sir, on the dividend policy, can you throw some light on the dividend policy? We are seeing that dividend is probably 5.5 per share.

Saurabh Mashruwala: We have a dividend policy of distributing 30% of PAT.

Jiten Rushi: Sir that is it from my side, if I have more questions, I will come back in the queue. Thank you and all the best.

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

Dhruv Muchhal: Sir, first question was on the, so if I look at YTD basis, your debt has come down by about 500 Crores, net debt. So you reported 8400 Crores gross and 1000 Crores of cash, so about 7400 Crores, and your FY2020 closing was about 8000-odd Crores, so 500 Crores, 600 Crores. Sir, what would be, and if I see the cash generation this quarter for the 9 months is about 1500 Crores, 1600 Crores. What I have done is EBITDA minus finance cost, minus the cash tax. So I was trying to understand, of 1600 Crores, the debt has declined only 500 Crores. So there should be some Capex, but what would the remaining part be?

Rishi Shah: As we said, Dhruv, we have done Capex of around 800 Crores in this year. And it is not only related to Capex. There were certain cash outflows, which have been accrued last year, cash outflow we have also this year.

Dhruv Muchhal: Okay. If 800 Crores is the Capex, then probably largely, it explains because then 800 Crores is the cash flow generation and debt has declined by 300 Crores, 500 Crores, then broadly that is what it is around. Sir, second question was on the earlier comment you made that your gas cost is frozen at $4. So this is for FY2022, is it?

Rishi Shah: So the contracts which we have done as far as liabilities under the PPAs are concerned, for those contracts, our gas cost is $4. I would say we also have a IOCL contract and some small contract with Reliance. That gas cost is not factored in here. That would be higher because it is linked to the Brent. It is difficult to throw a light on how that cost will move. But the contracts, which we have done for FY2022 and cargoes which were booked, that cost is around $4.

Dhruv Muchhal: Okay. Okay. So this is the merchant or the ex of long-term contracts that you have that you generally does that is at $4?

Rishi Shah: That is right. Not for merchant. This is for my PPA liabilities.

Dhruv Muchhal: For PPA liability, and sir, any booking that you have done for the merchant capacity in SUGEN and UNOSUGEN, the spare capacity that you have?

Saurabh Mashruwala: Not so far.

Dhruv Muchhal: Nothing yet, okay. Because there is one interesting that we see on IEX, on exchanges is that the peak power prices are again back to around 6, 5, and so earlier, you used to get advantage of these opportunities. You used to sell on exchanges at the higher prices. So I was just wondering, is that a chance still?

Saurabh Mashruwala: So Dhruv, if you look at this quarter also, we sold some small quantities in IEX, mainly coming out of this peak power field. So that can be done from SUGEN and UNOSUGEN, but for peaking power supply, we cannot operate DGEN.

Dhruv Muchhal: Yes, I was wondering from SUGEN, UNOSUGEN only.

Rishi Shah: Yes, yes. SUGEN, UNOSUGEN has sold some power on merchant basis in this quarter also, and that will keep on happening, depending on how prices move on to merchant market.

Dhruv Muchhal: But if you do not have that surplus gas available at affordable price, then the quantum will not be very significant. That is what I was trying to understand.

Rishi Shah: So Dhruv, it is difficult. So as far as peaking power is concerned, I mean, it can only be done from SUGEN and UNOSUGEN. Now typically, Q1 and Q2 are the best quarters for electricity demand, historically. So generally, we operate DGEN in H1 of every year, H2 typically is a lull quarter so on an RTC basis is concerned. So once we get a good understanding on the demand, we would like to do some gas contracting for H1 of the next year for merchant capacity.

Dhruv Muchhal: Got it. Got it, and one last confirmation, you mentioned that your interest cost has, the interest rates have reduced by 140 bps. Is it?

Saurabh Mashruwala: As compared to the comparable quarter of last year.

Dhruv Muchhal: Okay and this is, I mean, your long-term loans have resettled at 140 bps lower. This is not commercial papers that are one-offs. I mean because...

Rishi Shah: No, no. These are long-term.

Saurabh Mashruwala: Long-term.

Dhruv Muchhal: Thanks a lot. That is all, thanks a lot.

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

Rahul Modi: Congratulations on good numbers. Sir, just a quick couple of questions, when is our hard stop in terms of when you would like to contract for gas beyond 2023 because of late, we have seen a lot of volatility in the Asia LNG prices. So sir, from a sourcing strategy point of view, sir, how are you looking at it?

Rishi Shah: So Rahul, if you look at international markets, pre 2 years back or 3 years back, a lot of volumes were traded on a long-term basis. But the last 2 to 3 years or 4 years, the shift has been from long-term contract to a spot market. When I say spot, it could be 6 months, 12 months kind of a contracting basis. So earlier, the supply chain itself was very, very inflexible. Now, because of super tankers and all liquification and regasification capacities coming up in the country, it has become flexible now. So it is possible for you not to do a long-term contract because, essentially, a long-term contract means you are assured of supplies and not of price. And there is an ample of gas available in the international market, we consider that we should do more of spot contracting. When I say spot, again, I am repeating for the sake of repetition, it would be 6 to 12 months horizon. We we are continuously monitoring this and we will decide at an opportunistic point in time. But the estimate would be that we will be doing it for 6 months to12 months kind of a contracting and not for, let us say, 3 years or 5 years kind of contracting. Because essentially, it is a quality earning, supply contract rather than a price contract.

Rahul Modi: Sir, just one more question that I had, again, on the debt front. Sir, so we have seen a good enough reduction in the debt cost. So what is the average debt cost for our loan portfolio today?

Saurabh Mashruwala: Was about, what, 7.75% roughly as on December 2020.

Rahul Modi: Okay. Sir, you see this going down further. Or is there any scope?

Rishi Shah: No. It can go down on a small number, but it will not be as meaningful as what you saw in this quarter.

Rahul Modi: Sure. Right, and sir, from a debt repayment point of view, over the next 2 years, obviously, you have Capex, but again, you have got some room to further reduce debt from your cash flows. Sir, what is the target that you are looking at to go down in terms of debt over the next 2 to3 years, which you can do over and above the regulated debt in terms of reduction?

Saurabh Mashruwala: It all depends on our investment plan because some growth capital also will be required. So depending on the investment plan, we try to see that how much debt reduction is possible.

Rahul Modi: Sir, in terms of scope, I am saying. So obviously, that will vary, but I am saying from an outer limit, if we assume that, today, what it is, in terms of work in hand, so what can be a potential repayment over the next 2 years?

Saurabh Mashruwala: So Rahul, our annual scheduled repayments are around 1000 Crores. Now there could be a possibility we might do additional repayment of 100 Crores to 200 Crores. But looking at the projects which we have on hand or the projects which are coming up, yes, I think better clarity will emerge once we have final outcomes of all those biddings which we have done.

Rahul Modi: Thank you so much.

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

Aniket Mittal: I think most of my questions have been answered. So just on the merchant market front, if you could quantify the volume and the revenue that you have earned in 3Q?

Rishi Shah: We have sold 48 MUs in 3Qand our net contribution would be around 1.4 per unit.

Aniket Mittal: And how would that compare versus previous year?

Rishi Shah: The previous year, it was around 99 MUs with a contribution of around Rs. 2/unit.

Aniket Mittal: Okay, understood. Understood, and sir, just maybe one last question. I think on the MYT regulations itself. There was a draft MYT that had come out, which I think was talking about a performance-linked ROE to come in place, instead of the base sort of 14% ROE. So they are talking about the spread between a base rate from the performance-linked ROEs so just wanted your thoughts on the same.

Rishi Shah: First of all that is a draft regulation. It is difficult to comment anything on that, but let us say, if you assume for one moment that it will come in, our performance parameters, are above those normative layers which have been specified. So for us, I think it will remain a status quo of 14% post tax ROE.

Aniket Mittal: Thank you. That is it from my end.

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

Vivek Ramakrishnan: My question again was coming back to the debt level. Given certain regulatory uncertainties and some projects not being able to generate enough capacity, how do you look at the overall debt levels in a sense that you have to make investments in new projects, but some projects are not getting the delivered returns? So what is your view on debt? That is the only question I have, sir.

Rishi Shah: So we look at that on a balance sheet basis, first of all. So as far as our cash flows are concerned, we have more than sufficient to take care of the debt repayment or interest payment obligations are concerned. So on a balance sheet basis; we do not see any issues per se as far as debt servicing is concerned.

Vivek Ramakrishnan: No, sir, absolutely not. I just meant in terms of the financial risk profile that you will maintain because there will be some projects that generate very good returns and some which do not.

Rishi Shah: Okay. So just to answer your question, what we look at is that our net debt-to-EBITDA as a ratio, we would not like it to breach 3.5x on a long-term basis. So that is how we look at it on a consolidated basis.

Vivek Ramakrishnan: Thank you very much.

Moderator: Thank you. The next question is from the line of Harshavardhan Dole from IIFL Securities Limited. Please go ahead.

Harshavardhan S. Dole: Saurabh bhai, I had actually 2 questions. One was actually pertaining to the renewable business. Because some time ago, we had kind of taken a write-down on one of the projects that we had won, and we had taken a call that perhaps the risk reward is not that favorable as of now for the renewable project, and we will evaluate a better entry time. Now since then, the overall tariffs in this country have kind of collapsed, and on that backdrop, we have actually won a project by quoting one of the lowest tariffs for solar power projects. So I am just trying to understand what has changed at the margin. And here on, what should be the philosophy or the governing principle for growing the renewable business?

Rishi Shah: So Harsh. This is Rishi here. So as far as the GUVNL contract which we won, we always wanted to have counterparty, which was good in terms of the risk associated with it. As far as other risks are concerned, because of which we had to take a write-down on some of our wind portfolio or wind contracts, I think the one major risk was land. This time around we have identified certain pockets of land on which we can do solar projects. So that risk, we have sort of mitigated. As far as tariffs are concerned, if you look at 1.99, by quoting 1.99, we will still be making low-teens IRR. That is mainly due to the cost of debt in the country that has fallen from earlier levels. So if you look at our current cost of debt, it is around 7.75%, and we are estimating for this project, the cost of debt could be around 8.25% to 8.5%. As far as PLF is concerned, we are improving the technology because of which, we expect that the PLF from this project would be around 27% to28%. So putting all this together, we expect low-teens IRRs coming out of this project. And as far as risks and returns are concerned, we expect this to be a good project for us. As far as renewable strategy is concerned, we keep on looking at projects, and our benchmark return requirements would be around 13% earning in terms of base equity IRRs, which we look at for any project, and as far as solar projects are concerned, as I said, land risks are more or less taken out because of some identification of lands, which we have done. Also some projects come with their own land allocations. So that risk has been taken out by these mitigation factors which we have done, and as far as return expectations are concerned, 13% could be a base level requirement, which we want for any project.

Harshavardhan S. Dole: Very clear. So investors should expect portfolio growth in this, rather growth in this portfolio on a risk-adjusted basis rather than just return basis. So one should evaluate the risk and then look at the corresponding returns. Will that be a fair statement?

Rishi Shah: Absolutely.

Harshavardhan S. Dole: Thank you very much.

Moderator: Thank you. The next question is from the line of Mohit from DAM Capital. Please go ahead.

Harshavardhan S. Dole: I think operator, if there are no further questions, let us take that as the last question and let us hand over the line to the management for final comments.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Saurabh Mashruwala: Thank you very much for attending the call. Thank you.

Harshavardhan S. Dole: Well, on behalf of IIFL Securities, I thank the management for giving us an opportunity to host this call. I also thank all the participants for dialing in and actively participating in the call. Thank you very much. In case if you have any further questions, drop me a line. I will have it answered through the management. Thank you and have a great day.

Saurabh Mashruwala: Thank you.

Rishi Shah: Thank you.

Moderator: Thank you. On behalf of IIFL Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines