



“Torrent Power Limited Q2 FY24 Earnings Conference Call”

November 09, 2023



**MANAGEMENT: MR. SAURABH MASHRUWALA – CHIEF FINANCIAL OFFICER, TORRENT POWER LIMITED
MR. RISHI SHAH – GM (FINANCE), TORRENT POWER LIMITED
MR. JAYPRAKASH KHANWANI – AGM (FINANCE), TORRENT POWER LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Torrent Power Limited Q2 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Saurabh Mashruwala - Chief Financial Officer, Torrent Power Limited. Thank you and over to you, sir.

Saurabh Mashruwala: Thank you, Neerav. Good evening to all of you and thank you for joining Earnings Call of Torrent Power for Q2 FY24. First, I will take you to the performance of the quarter after which phone lines will be open for Q&A session. I will explain the performance of the Company at PBT level first and then take you through the tax expenses separately.

Reported PBT for the quarter stood at Rs. 741 crores as compared to Rs. 725 crores in the corresponding quarter of last year, an increase of about Rs. 16 crores, roughly about 2% on reported basis. There were no non-recurring items in both the quarters current as well as the corresponding quarter of last year. Underlying business across coal generations, renewable generations, licensed and franchised distribution showed improved performance in terms of profit, which was partially offset by the lower gain from LNG as well as merchant sales in current quarter as compared to the corresponding quarter of last year.

Business factors contributing to the growth are:

There are three factors which has impacted the profit:

1. Contribution from the distribution business improved by Rs. 66 crores due to two reasons, first improvement in T&D losses, increase in ROE on capitalization of CAPEX and incentive contribute about Rs. 71 crores which was partially offset by the higher bad debt provision mainly in distribution franchise business due to lower collection efficiency witness in the quarter by Rs. 11 crores.
2. Profitability of renewable business increased by Rs. 75 crores on account of first improved PLF from the wind power project and second contribution for the newly commissioned 115 MW SECI-V projects in power project which is commissioned in the month of July 23.
3. The affirmation to gains from the distribution as well as newer generation segment were offset by the reduced profits from the thermal generation by Rs. 130 crores on account of lower net gain in the current quarter from sale of LNG and merchant power compared to corresponding quarter of last year.

Before moving into the after-tax numbers, we would like to highlight that despite the lower LNG as well as merchant gains as detailed in my earlier commentary, the Company has been able to

grow its bottom line on an absolute basis. Companies consolidated profit after tax reported for the quarter is Rs. 531 crores as compared to Rs. 485 crores reported in the corresponding quarter last year which is higher by about 46%, growth of about 9%.

Now, moving on to the operating performance of the Company:

There are six factors:

1. Power demand witnessed a remarkable growth during the quarter, leading to a better generation of the Company.
2. Demand from the distribution business of the Company witnessed the healthy growth of 6.5% in the current quarter.
3. Thermal generation of the Company witnessed an increased PLF due to increased demand from both long-term off takers as well as merchant power.
4. For the first time, all generating units of 1200 MW DGEN power project, Gas Based Power Project where service at base load is for the certain period of time.
5. We expect the country's power demand to show incremental growth and merchant power market in certain peak demand period, particularly in the month of summer as well as pre-winter will offer the opportunity to sell power from the gas-based power project in future, considering the LNG prices remains at sustainable level. And last
6. PLF of renewal generation was higher on account of the better generation from wind power projects due to normalized wind speed compared to previous quarters.

This completed the overview of the quarterly financial as well as operating performance of the Company.

Moving on, we will now give a brief update about the current projects which are under pipeline:

TPLD 300 MW solar project is likely to be commissioned by end of FY24, it is expected to have improved return considering the reduction in solar module prices in the interest of the market.

PPA for 300 MW SECI-XII wind project was executed in the end of March 23. Turnkey EPC contract for the development of the project has been awarded to Suzlon. SCOD of the project is March 25. SCOD of the project is likely to be extended considering the procedural delays in adoption of tariff by the CERC.

During the quarter, Company acquired 100% stake in Air Power Wind Farm with the cost of Rs. 22 crores. The Company is in business of leasing land for renewable project and is in possession of the land which is suitable for development of 175 MW renewable project with a high CUF.

Under C&I portfolio, the Company has 295 MW of projects under development out of which 11 MW is commissioned into Q2 FY24 and remaining projects are going to be commissioned going forward. This pilot for taking Green Hydrogen blending with the CNG in UP is one of the largest private sector branding projects in India is progressing as per the timeline and is expected to

commission by March 24. In distribution segment, Company commissioned its power import substation in Dholera SIR wherein we are the licensee.

With respect to pumped storage hydro projects in Maharashtra, MoEF has granted the terms of reference for two sites and the DPR is under preparation right now.

That is all for this quarter. Now, I would request coordinator to open the line for the Q&A session. We wish everybody to stay safe and healthy. Thank you. Handing over to the operator.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: Three questions from my side, so one is on the renewable pipeline, we see a lot of bidding happening, but we don't see us participating in this, is there a conscious decision not to participate in any of the renewable biddings which are happening currently or are really reassessed from this position after some time?

Saurabh Mashruwala: No, we are participating, but we are very cautious about the bottomline also. So we thought that the only solar and wind standalone project will not offer the better return. So we look at the hybrid kind of a project will offer the better return, so return expectation is more important for us than simply bidding the projects.

Mohit Kumar: Do you expect to see Hybrid bids will have a lesser competition, is that a fair assessment?

Saurabh Mashruwala: Yes, hybrid project has a lesser competition. That is what our understanding is, yes and it offered better returns also.

Mohit Kumar: My second question is on the given that there is a lack of power capacity and the captive power plants in the sense should be in demand, can we expect that DGEN to start operating at some point of time at a higher PLF and did the government conducted a bid in this particular for the month of October?

Saurabh Mashruwala: Yes, government has currently offered the new tenders, but finally, because of lower demand, it was not offered to us, but we expect that the DGEN project, in fact, if you look at the summer as well as pre-winters a year, we were able to offer the DGEN project, we are able to sell power in the merchant market. Going forward because of the energy situation in the country, we expect demand from merchant power will come during the summer time as well as pre-winter period and expect DGEN project will possibly run during those periods.

Mohit Kumar: And this is my last question is on the set, is it possible to give us the EBITDA breakup for the quarter or for the half year?

Saurabh Mashruwala: So it is given in the result which we have announced. In fact we have started giving the segment wise reporting which has EBITDA also. It is there in the financial result, which we have

announced, segment wise performance we have given for the distribution, generations, renewables, so you can get from that quarterly numbers as well as half yearly numbers as well as yearly numbers also.

- Mohit Kumar:** Merchant volumes in this quarter?
- Saurabh Mashruwala:** So approx. 272 MUs we are able to sell in the merchant market.
- Moderator:** Thank you. The next question is from the line of Anuj Upadhyay from Investec Capital. Please go ahead.
- Anuj Upadhyay:** Sir, LNG profitability for this quarter compared to the previous year quarter?
- Saurabh Mashruwala:** So Anuj, this quarter there was not much of LNG sales, it was more of merchant sale, which has contributed to the profitability. So if you compare the last quarter as well as current quarter, both merchant and LNG put together, we earn above Rs. 130 crores less contribution LNG as well as merchant.
- Anuj Upadhyay:** Combined contribution, you are saying Rs. 130 crores for next?
- Saurabh Mashruwala:** Lower rates compared with the last comparable quarter of last year.
- Anuj Upadhyay:** And you mentioned about there could be some delay in the commissioning of 300 MW SECI XII project, any indications of how much delay would it be a quarter or two or something?
- Saurabh Mashruwala:** SECI was unable to finalize the onward PPA I would say with the couple of Discoms. That is why there will be some delay in signing the PPA with us also, so maybe in a quarter or so, they will come back to us what kind of extension they are going to give.
- Anuj Upadhyay:** And then the timeline, which you can throw for the 175 MW of project which we are targeting for the merchant market and other 191 C&A project?
- Saurabh Mashruwala:** Maybe about 15 to 18 month is the duration one can expect.
- Anuj Upadhyay:** Sir, are we still sticking to our long-term goal, long term in the sense 3 to 4 years kind of a goal to have 5 GW of renewable capacity in our kitty because as you mentioned in the earlier question that we are strategically looking into bidding this project, so we don't want to lose onto the earnings for the return portfolio by adding more projects to the kitty, so are we still sticking to the 5 GW back for 26?
- Saurabh Mashruwala:** Yes, 3-4 years, yes, we have targeted for 5 GW, both we are looking Greenfield project as well as acquisitions also both the things we are evaluating at this moment.

- Rishi Shah:** So Anuj, earlier also when we said we were always saying that it was always subject to we getting the desired returns which we are looking at, so again that caveat remains that 5 GW is the aspiration which we want to but not at the cost of the profitability of the return profile.
- Moderator:** Thank you. Next question is from the line of Dhruv Muchhal from HDFC Asset Management. Please go ahead.
- Dhruv Muchhal:** Sir, the first question was the electricity demand growth has been very reasonable across your circle, so if you can share some sense and we see that across India also, if you can share some sense on what is driving this, probably we understand some bit could be residential, but some incremental thoughts from you, particularly if I take T&D which is probably largely commercial and industrial area for you, there also demand growth is about 8% this quarter, so just some granular details on what your view is driving this?
- Saurabh Mashruwala:** The combination of, if you look at the GDP numbers also and industrial demand which is very strong right now, which is what it is driving the demand across all our distribution areas.
- Rishi Shah:** So Dhruv, if you look at DDDNH, which is as you rightly said it is more of an industrial area which has showed a growth of 8%. If you look at Agra also which is more of residential or in Ahmedabad which is more of residential they have also shown a good growth in terms of volumes is concerned. So as far as the demand for the entire electricity is concerned, I think it is coming from all the angles, be it industrial or be it residential or commercial. So country as a whole H1 demand consumption of electricity was about 9.3%. That is what government has announced the number, so which is reflected in our performance also in our area of operations.
- Dhruv Muchhal:** So for your area say particularly areas which are relatively high industrial, if you split that between industrial and say residential, would the growth be similar in between residential and industrial or is there something which is growing more faster and something slower?
- Rishi Shah:** No, so I think it would not be right to generalize that. So if I tell you that Bhiwandi is an industrial area, but it has not shown growth because of particular issues with respect to the industry which it has. So as far as generalization is concerned would be very difficult to generalize that, but yes, if I look at my areas then all the areas have shown typical growth, some, maybe couple of percentage higher, some couple of percentage lower, but as far as residential or industrial is concerned, both of them have shown good growth.
- Dhruv Muchhal:** Growth within the areas for the segments, it is reasonable both for industrial, residential, it is same across? And sir the second thing was, similar to the renewable bids, transmission bids are also we see that the pace of transmission bid awarding is increasing, sir, how do we think of our participation there because I think earlier we were looking at getting some bid there?
- Saurabh Mashruwala:** We are participating, but as we say, we always look at the desired returns. So based on the desired return, we generally participate in the transmission project.

- Rishi Shah:** I think, Dhruv we participate in all the biddings which happen for renewable or for transmission. Sometimes we are not successful because we are not willing to go beyond certain point in terms of rates are concerned.
- Dhruv Muchhal:** So in your view, still the rates in transmission bidding is not as attractive probably for you, it is not as attractive yet despite the increase in pace for now?
- Saurabh Mashruwala:** As of now, yes.
- Moderator:** Thank you. Next question is from the line of Jiten Rushi from Axis Capital. Please go ahead.
- Jiten Rushi:** Sir, just on the LNG and the merchant site, two last year we had a Rs. 155 crore of LNG gain, so as you said the decline is Rs. 130 crores this time Rs. 36 crores and Rs. 25 crores was the earnings from the LNG and merchant?
- Saurabh Mashruwala:** Yes.
- Jiten Rushi:** And sir, what could be the break up between this two because in Q1 it was like Rs. 10 crores from LNG gain and Rs. 134 from merchant, so in this Rs. 25 crores?
- Saurabh Mashruwala:** Major part of it is merchant, very small part from LNG trading.
- Jiten Rushi:** And what was the rate at which you have sold the merchant power?
- Saurabh Mashruwala:** Average rate would be around Rs. 10 to Rs. 11 range.
- Jiten Rushi:** So probably you are expecting this run rate to continue this quarter? Any additional earnings of Rs. 25-Rs. 30 crores wanted to maintain in merchant?
- Saurabh Mashruwala:** I think it would be very speculative to answer that question whether that will sustain or not, but if you look at merchant prices right now, because winter setting in, expectation is it will slightly go down and then again pick up let us say somewhere at the end of Q4.
- Jiten Rushi:** And on the parallel licensing, any updates like you were talking about the parallel licensing in Maharashtra and other states, so?
- Saurabh Mashruwala:** Parallel licensing, we have completed all compliances, whatever compliances is required from the regulator, we have completed all compliances. We are now just waiting to take this forward for that internal process.
- Jiten Rushi:** So how long the process will take more time from here or what is your view?
- Saurabh Mashruwala:** It is difficult to say right now because MERC has to work and take it forward in that internal system and for the approval purpose. Difficult to put a time to it, but it is moving on. It is very difficult to put a timeline to it.

- Jiten Rushi:** And sir, on the pumped hydro storage, obviously last quarter also we highlighted something and you also have stated in the opening remarks that removing what allotted some land, so can you just throw further light and what is the progress now in the pumped hydro storage during the last folder?
- Saurabh Mashruwala:** It is a long-term project, so maybe 5-6 years is required to materialize, to see the pumps which operating. The first step is we have to get the MoU approval which we have obtained. Now the second stage is that DPR and then take it forward for the approval.
- Jiten Rushi:** So basically, sir, the initial perpetratory work will take another two years before the actual construction or exhibition?
- Saurabh Mashruwala:** I think so, yes, you are right.
- Jiten Rushi:** And probably after that the construction will work for like 4-5 years?
- Saurabh Mashruwala:** 3-4 years, I would say.
- Jiten Rushi:** So in all like 5 to 6 years for commissioning from now?
- Saurabh Mashruwala:** Yes.
- Moderator:** Thank you. Next question is from the line of Amit from Morgan Stanley. Please go ahead.
- Amit:** Sir, I wanted to get some sense around the performance in the license and franchise distribution, I mean you have clubbed both the segments in T&D so how should one look at? What would be a good way to understand how franchise is performing?
- Saurabh Mashruwala:** So we have said in the beginning of the call saying that the both license and franchise distribution performance is better and we have improved the performance by Rs. 66 crores on combined basis. That is what all we can say.
- Amit:** And on the PSP part, I mean, what kind of models are we looking at? Are we looking at a leasing kind of model or we would go for regulated bids or how would it be?
- Saurabh Mashruwala:** I think as of now it is too early to comment on that. We have kept our options open. Once we get nearer to getting those approvals, we will really see whether we want to go into leasing part or do our RTC project and sell the energy.
- Moderator:** Thank you. Next question is from the line of Bharani Vijaykumar from Spark Capital. Please go ahead.
- Bharani Vijaykumar:** Just wanted to understand from you when you said that the returns are better in the hybrid projects, could you highlight the reasons according to you? Why this is the case?

- Saurabh Mashruwala:** So hybrid project is a high CUF project. In fact you can able to deliver the higher PLF cost I would say so which will ensure that the availability of power is higher, I would say so because of the inherent advantage of high CUF project retails would be higher.
- Bharani Vijaykumar:** High cost you mean?
- Saurabh Mashruwala:** No, high CUF I mean. So basically what happens is that in this kind of projects, you will have to really identify the sites which can provide you higher PLF both on wind and solar and then only you can give a high CUF solution to the purchaser which means that you will have to identify those sites and be ready when the tenders come, so that the competition itself would be lower because of which the returns could be higher compared to pure plain vanilla projects or wind or solar.
- Bharani Vijaykumar:** And does common transmission network and infrastructure, which is required, which will probably come up at much lesser cost per MW, is that also a reason?
- Saurabh Mashruwala:** That would also be a one factor, but I think major factor would be lesser competition in the bids compared to all those cost saving and evacuation facility will be better utilized in case of hybrid project.
- Bharani Vijaykumar:** And what I am noticing is that in the recent SECI bids, there is this firm and dispatchable renewable energy kind of bids that are coming up which mandates storage also to be part of the bids, so are we bidding for those kinds of bids?
- Saurabh Mashruwala:** Our interest is to go and try for the hybrid kind of projects.
- Bharani Vijaykumar:** And the last question from my side is on the entire gas capacity in the country and especially for us, now recently government has been doing a lot of measures to improve power supply in the country and some of the measures also include reviving the stranded assets, be it coal, maybe even on gas, so are you seeing any long-term action that government is planning to do to revive the entire gas space which will also benefit us?
- Saurabh Mashruwala:** Our expectation is the power deficit scenario is going to continue for a couple of months, going to come I would say, so we expect that the gas is probably the better place to deliver in those periods in those particular summer period or the winter period.
- Bharani Vijaykumar:** So what you are telling is the temporary measures that the government has been doing that will continue no long-term measures which will resolve the stranded assets?
- Saurabh Mashruwala:** At least for some period of time, we are seeing that situation.
- Moderator:** Thank you. As there are no further questions, I will now hand the conference over to Mr. Saurabh Mashruwala for closing comments.

Saurabh Mashruwala: Thank you so much. Thank you for attending the Torrent Power Earnings Call. We wish everybody to stay safe and healthy and Happy Diwali to all of you. Thank you so much.

Moderator: Thank you very much. On behalf of Torrent Power Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.