



**“India Grid Trust
Q1FY2018 Earnings Conference Call”**

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the India Grid Trust Q1 FY2018 Results Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. I now hand the conference over to Mr. Swarnim Maheshwari from Edelweiss Securities. Thank you and over to you, Sir!

Swarnim Maheshwari: Thanks Stanford. Hi everyone on behalf of Edelweiss I welcome you all to the India Grid Q1 FY2018 Earnings Conference Call. We have with us today Mr. Pratik Agarwal – CEO and Mr. Harsh Shah – CFO of Sterlite Investment Managers who are representing India Grid Trust on the call. I would now request Mr. Pratik Agarwal for his opening remarks post which we can start the Q&A. Over to you sir!

Pratik Agarwal: Thank you very much. First and foremost, I thank each one of the participants on the call for taking the time to join. This is the first ever analyst call of India Grid Trust and we are all very excited to be here today. We listed this InvIT on the 6th of June, as you all know. This is the second InvIT issuance in the country and the first ever in the power sector. Today have been 50 days since the listing and we had our board meeting yesterday where we made a couple of important decisions which help in making the pillars of this trust even stronger so I will spend about 10 to 15 minutes taking you through the vision, the strategy and some key decisions that were made in yesterday’s Board meeting. I will then pass on to Harsh to talk about some more details around numbers and the M&A that we are pursuing and then we can open up for questions.

Our vision for IndiGrid is to become the most admired yield vehicle around Asia Pacific, building upon the solid fundamentals of transparency, governance, by providing superior risk adjusted returns to unit holders. This depends on three fundamental building blocks; the first one is the target to reach Rs. 30,000 Crore (AUM) Assets Under Management by the year 2022, which is five years from today. We will have a sharp focus on delivering predictable distribution per unit as well as growing the distribution per unit on a consistent basis year-on-year and needless to say the third pillar is world-class corporate governance when it comes to compliance and every other aspect of running India Grid Trust. So those are the three pillars around which we plan to achieve our stated vision. Our strategy to achieve that vision consists of four parts; the first is a very focused business model. India Grid Trust initial portfolio assets consist of two transmission SPVs, which are 10 elements, eight transmission lines and two substations. So, these transmission projects have a 35-year contract life. They are fully contracted assets with very, very low operating risk. They are the only true annuity-type

project that are really around in the country at the moment, in terms of new projects and these projects also have very stable cash flows because of the low counterparty risk and the strong availability of these assets. So, India Grid Trust has a strategy to remain a focused pure play power transmission player and it does not plan to diversify into non-power transmission-type assets. It will keep on acquiring more and more projects both from its sponsor as well as through the third party route in order to reach a derived AUM as mentioned earlier. The stability and predictability will be the key facets of India Grid Trust.

Our second point is value accretive growth we have promised during the IPO and we affirm today that we plan to grow our distribution by 3% to 5% year-on-year through value accretive transactions. At the time of IPO, India Grid Trust signed a Right of First Offer (ROFO) on eight additional assets, which belong to the sponsor, and since then the sponsor has acquired one more asset. So, the sponsor has a total of nine assets. These nine assets have a potential of taking India Grid Trust EBITDA from the current levels to five times of these current levels and hence there is a very, very healthy pipeline available, almost captive to India Grid Trust, which forms the better half of our growth strategy, but our growth strategy is not limited to Sterlite Power Assets. We do plan to pursue third party assets which are available in the market as many transmission projects have been awarded to players and who have completed those projects and these projects remain non-core to those companies and we believe over the course of next three to five years, there will be several opportunities to aggregate such transmission projects from the market. Of course, we will always remain committed to value accretive transactions. We are not here for chasing volume alone. We believe in achieving volume along with distribution growth.

The third part of our strategy is to keep optimizing our capital structure. We have a debt cap from the regulator, which allows us to go up to 1:1 debt equity. We plan to use that headroom very judiciously. We plan to look for the best source of capital which is both long tenure in nature as well as the most cost efficient and through that we plan to deliver the best return to our unit holders and finally this is about distribution. We have again regulatory guidelines to distribute at least 90% of the cash available. We definitely plan to do that but also plan to exceed it from time-to-time and most recently in our board meeting yesterday, we have now migrated from what was earlier a half yearly semiannual distribution to what is now a quarterly distribution and so investors can now expect four payments in a year.

So this is our strategy, transmission focused business model, value accretive growth, optimal capital structure, and maximizing distribution and I think this is a good combination to get us to our stated vision as mentioned earlier.

Finally I will take you through some of the key decisions that were made in the recent board meeting. First and foremost, the board has taken a decision to announce the first quarterly distribution of Rs.0.92 per unit which is 92 paise per unit which works out to an annualized 11%. This is in line with our guidance that we made on June 20th, which talked about an annualized 11% distribution for the year. So we are not only reinstating that guidance but we have gone ahead and made the first payment against that guidance. As mentioned earlier, the Board has decided to adopt a quarterly distribution policy in line with the global standard for such instruments. The board has acknowledged that it has received notice from the sponsor and it will consider the acquisition of a further four assets within this year by following the due process of diligence and resulting in arm's length transaction and my colleague, Harsh, will give you more details on those assets and of course, we plan to get into the process and we will come back perhaps in sometime with a more firm timeline and perhaps even valuation of those assets but today we can give you the basic details of those four assets.

And finally, our earnings for the quarter stand at a net distributable cash flow of Rs. 25.77 Crores for Q1. This only represents one month of operation since we listed in the end of May. So with that, I will summarize. We came to the market with a story in the end of May. We received a strong response from investors many of who are on the call today. We have lived up to every promise with regards to yield as well as growth and we plan to remain consistent to those promises over the upcoming quarters and once again I thank you for your support and for interest in IndiGrid. I will now pass on to Harsh to take you through some more details before we open up for questions.

Harsh Shah:

Thank you Pratik. So to reiterate, our guidance for the entire year was Rs.9.2 per unit which is equivalent to Rs.11 annualized. In half year, we had committed Rs.3.6 per unit to be distributed in the month of October out of that we have decided to distribute Rs.0.92 in Q1 itself. Over and above the guidance, we stated that we would pursue our growth strategy and target a 3% to 5% growth on our annualized distribution by the end of this year, which will ensure that our next year distribution is higher by 3% to 5% from the existing guidance of Rs.11 for this year.

In line with our strategy for growth, we have received invitation to offer from our sponsor for four transmission assets. All of them fall under the same contractual framework. We will evaluate the same for acquisition in this financial year and we will come back with a proposal after due process and committee approval from our independent directors along with the financing package and the specific numbers on how the yield as well as the IRR of the portfolio improves by that acquisition. To give an indication, these four projects together add a top line of about Rs. 300 Crores and which means from our existing top line, it is about

50% to 60% growth in the top line and which should also result in a similar growth in the AUM. This is just to give a perspective of the size. The specific numbers, we will provide as we go ahead with the due process on acquisition. Few key points which I would like to emphasize on is that as we follow the M&A process, the first step is that the investment committee of Sterlite Investment Manger needs to approve any such proposal. That committee consists of 100% independent board members. Based on that approval, the proposal will go to unit holders for voting. In that scenario, sponsor as a unit holder will not be able to vote considering that these are related party transactions and therefore a majority of the investors and unit holders will decide and vote on this acquisition. Subsequent to that, these acquisitions will be consummated.

Coming from the financial year to Q1 results. So, before we get down to numbers, I would like to reemphasize the focus on net distributable cash flow from IndiGrid as per our promise as well as the promise of the product that it is going to be a cash flow distribution product primarily and therefore we would like to consistently provide guidance on the net distributable cash flows and evaluate ourselves on that. There is a specific formula, which is provided in the offer document as well as our corporate presentation. We will continue to report our performance on that on a quarter-on-quarter basis. The focus on that is cash and how much cash the company has earned over the period that we are reporting.

Coming to Q1 performance, while we have done Rs. 40.6 Crores of Revenue for one month of operation and the EBITDA is Rs. 37 Crores. The interest which we have paid is Rs. 5.4 Crores and repayment of existing loan which we have done post acquisition is Rs. 3.7 Crores and post due working capital movements, we have a net distributable cash flow of Rs. 25.77 Crores which the company has earned in the Q1 in one month of operation. This, if you analyze, is sufficient on a run rate basis to meet our guidance. As you can see, we are providing a distribution of 92 paisa which will translate into Rs. 24.9 Crores of distribution out of the Rs. 25.77 Crores of NDCF and on an annual basis, this month, our run rate clearly indicates that we are well on our track to deliver the guidance which we have given for the year. On the balance sheet, on the debt side, we have indebtedness of Rs. 991 Crores for the quarter ended. We have primarily two debt instruments in one of the projects, which is BDTCL. First instrument is a nonconvertible debenture rated AAA and the cost of debt over there is 7.85% and the second instrument which we continued from before the acquisition which is a long-term ECB with a 10 year of maturity from now, fully hedged with IRS as well as principal hedge. This is about 25% of the total borrowing and the 75% of the borrowing is NCD which is rated AAA. At a trust level, we are rated AAA with 26% leverage as debt to asset and even if we were to lever up to 49%, for which we have a headroom of

about Rs. 1800 Crores of additional leverage, considering the new asset acquisition, we believe we will continue to maintain our rating of AAA at IndiGrid and which will allow us to cap in the right financial structures and cost available to acquire the assets to ensure that they are value accretive over a longer period of time.

I would now like to invite questions. Thanks.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Mayur Patel from DSP BlackRock. Please go ahead.

Mayur Patel: Good afternoon gentlemen. Congratulations for good set of performance especially your debut performance. Sir, I just had one question on, so overall you have a headroom to rise around Rs. 800, 900 Crores of debt, is it right?

Pratik Agarwal: Yes, that is correct. We have headroom of about that much debt in the existing assets however when you acquire a new asset, 49% of that asset value also is available as headroom to borrow.

Mayur Patel: So I assume that the new assets are acquired, initial few assets without any fresh ways of equity or so what is the strategy currently since first you need to use this headroom and do as much assets based on leverage which adds more value to the existing holders and then subsequently once the headroom is full you go for the fresh phase of equity or what is the thought process there?

Pratik Agarwal: As you rightly said, our thought process remains that we would like to focus on acquisitions based on debt finance to start with and deliver a clear value accretive growth to the existing unit holders. And to address the first question which you asked on the debt cap, about Rs. 1800 Crores is the amount of asset value that we can buy without any fresh equity raise.

Mayur Patel: And currently till the end of this year how much assets are likely to be offered and the process implementation out of the four, which is there on the card currently?

Pratik Agarwal: So as of now we have received the invitation for four. I think we will have to work and evaluate, considering this debt limit, that which are the ones we buy and include in the portfolio to start with and our goal will be to ensure that we utilize this Rs. 1800 Crores in this financial year and deliver the return. And more than the number of assets, our focus will be to ensure that we deliver the growth, with this cap available.

Mayur Patel: So you want to use the entire amount as quickly as possible by the year-end and things like that?

Pratik Agarwal: Yes, the peak year. I mean essentially since you know our goal is to deliver the 3% to 5% distribution growth and the bigger the asset purchase, the easier it is to deliver on those targets. So, yes, the idea would be to use the full cap if possible. Of course, everything is subject to the approval of the independent board as well as the unit holders.

Mayur Patel: And just last thing your blended cost of debt is how much currently?

Harsh Shah: Blended cost of debt will be approximately 8% as of now.

Mayur Patel: Fine. Thanks a lot and all the best.

Moderator: Thank you. We take the next question from the line of Pratik Bagaria from Motilal Oswal. Please go ahead.

Pratik Bagaria: I just wanted to check that guidance of Rs.11 that you have given for this year what are the key risks if you can highlight those?

Pratik Agarwal: See, the assets are power transmission assets, which throw up revenue and then eventually become distributable cash flow. Power transmission assets have, as you know, essentially no throughput risk and there is no traffic risk unlike road or power generation assets. So really you are dependent on two things, one is can you collect your entire cash on time and second, can you keep the line available and maintained on the desired level of availability, which is 98% as per our contract. Now on both these risks, we are very well placed because all our assets are interstate assets and we enjoy the benefit of a pooling method, which is a pooled account maintained by Power Grid and all users of our assets pay into that pool account and as we do not have to collect, we get disbursed by Power Grid a few times a month. So, we have remained a consistent 50-day receivable cycle and this particular pool has had that track record for about seven-eight years now, so we do not see any risk around collections and with regards to maintaining the availability of the line, again we have had a very strong track record perhaps north of 99.5%-99.7%. We have been able to maintain that even in this quarter roughly and we plan for that to continue. So as long as those two variables are in control, there is really virtually no risk around that guidance.

Pratik Bagaria: Any cost escalations also you see as risk in terms of maintaining your line?

Pratik Agarwal: The operating cost of a transmission project is typically anywhere from 3% to 5% of the top line of the revenue. We have given our projections. We do not see any risk of cost escalation. Our projects are covered by strong contractors, especially around force majeure event. So, whenever there is a force majeure event, it is well covered in the contract and we get deemed availability so again we do not see that as a major risk.

Pratik Bagaria: All right. Thank you.

Moderator: Thank you. We take the next question from the line of Yash Kedia from Edelweiss. Please go ahead.

Yash Kedia: My question is that how does an investor get his capital back in this scheme because you are pitching this against a debt instrument so we have a 11% yield and how do we get our capital back at the end of the tenure?

Pratik Agarwal: All right. I think your question has few parts, I will take a few and I will ask Harsh to take some. See we actually do not pitch this as a debt instrument. By nature, it is equity because there are no securities against the instrument. Our value proposition to the investor is that they make money in two ways; one is through the cash yield, which we have already discussed, and second is through growth of that cash yield, which can perhaps materialize into capital gains. Now with regards to getting capital back, since this behaves like an equity product and hence perpetual in nature, there is no real concept of the capital coming back. Perhaps Harsh can describe how these assets are unique in the sense that they are truly perpetual and one can expect the revenue from these assets in perpetuity and he can also then describe the concept of a terminal value.

Harsh Shah: Sure, so I think on the capital return, the units are going to be trading on the exchange so that is something which our investors can decide to exit at some point in time and considering it is a perpetual product, as Pratik mentioned, the core of the product is that it has a substantially longer life as we include in our offer document, at least 50 years of operation period and our initial contract is 35 years. What we believe is that these assets are rights of way corridors, which are essential to transmit power between point A to point B and India as a country has a unique phenomena where the load centres and the generating centres are distributed in a particular way which requires these power transmission highways and the cost of building these transmission lines increase substantially over a period of time because of rights of way, inflation and the other costs going up, which makes the replacement cost substantially higher which results in the assets being irreplaceable. Therefore, with a combination of a very high replacement cost, a perpetual nature of contract in ownership with the SPVs, I believe there

is a credible chance of extension of these contracts till the time this power transmission is required and therefore one should look at it as a perpetual cash flow product and at any point in time depending on the cash flows available it should be valued and it can be traded on the exchange.

Yash Kedia: So basically because of the perpetual in nature the capital coming back that question is addressed, Sir just one question adding to that is in case in the future because now we are talking about a long period 20, 30 years, so I just wanted to know that if alternate sources of energy replace thermal power in the future, so these grids are also applicable for transmission out for those sources, so that we can actually look at this in a perpetual manner?

Pratik Agarwal: Yes, so absolutely, the transmission grids in India and around the world are completely agnostic to the source of energy and all forms of energy have the same transmission lines. In India, we talk of green corridors but frankly that does not mean anything. All transmission lines are the same and they evacuate all forms of power. Given that India's renewable mission has been far more successful on large grid connected utility scale projects like large solo farms and large wind farms, rooftop schemes have been less successful. We believe the transmission in any scenario will continue to be an absolutely essential part of the entire electricity system of India and around the world.

Pratik Agarwal: Thank you so much.

Moderator: Thank you. We take the next question from the line of Uchit Shah from SG Securities. Please go ahead.

Uchit Shah: Sir first congratulations for the first listing of IndiGrid. Sir, my question is regarding our increased yield of 3% to 5% year-on-year. So will you explain in detail how it will happen if it does not require any assets whether with the same asset is it possible or acquisition of a new asset is a must for increasing yield?

Pratik Agarwal: I think your question really is that is there any organic growth in the main asset or does the growth come only from acquisition. So, these are transmission assets where there is no traffic risk, so unlike a road project or even a merchant power generation project, where the more you produce, the more you sell, you can get a high return and then in those projects you also have a downside risk where there is a GDP slowdown or any other reason, then there can be a reduction in top and bottom line. So, in our assets we neither have the upside nor the downside. Our asset will behave like a fixed sustainable long-term annuity and I think there is a large investor base that is really looking for a stable return rather than an upside so that

is what the core assets offer. Now what IndiGrid has done is that they have signed a right of first offer agreement with the sponsor, to take a right of first offer on another eight assets and what that means is that IndiGrid has preferential rights on their eight assets and sponsor also has a ninth asset. So, we believe that there is a high degree of certainty around making these acquisitions and as you saw four of those assets have also been offered already yesterday to IndiGrid, so we feel very confident of delivering the 3% to 5% growth year-on-year. I will add one more point, which is related to what Harsh said, that while in the near-term we do not expect much of an upside at the asset level, however because these are perpetual contracts and because the right of way remains with the project owner in perpetuity, one can expect, over a 10- to 15-year period, a repowering opportunity, where the old assets may have to be replaced with new assets during the existing right of way corridor and those opportunities will come at a very high return to the existing incumbent asset owners. So, this is one layer of upside available but I would not put that in our base case.

Uchit Shah: And Sir my second question is regarding we have a liberty to acquire three or four assets. Suppose after five years replacement value of our assets increases, do we have a liberty to sell off our any assets at a profitable margin?

Pratik Agarwal: That is a great question. So, the guidelines and the regulations do not prohibit sale of any assets. So, the short answer to your question is yes, we can do that. I think the investment thesis over here is that the investors who come into the company are looking for long sustaining growth and long sustaining yield and it is not very clear to us whether they are looking for a lumpy one-time return. So, of course, we will keep on interacting with investors and if that were ever to be an area of interest, we will look at it, but at the moment we remain focused on buying assets and growing our distribution and sale of assets is not our primary target at the moment.

Uchit Shah: Thank you very much I will come in the queue.

Moderator: Thank you. We take the next question from the line of Sarita Mulki from Kotak Life Insurance. Please go ahead.

Sarita Mulki: I just wanted to understand like the total debt at a consol level is 991 so apart from this debt first of all this 991 is in which entity and apart from this debt is there any other debt in any other entity.

Harsh Shah: So, Rs. 991 cr is entirely in BDTCL, the entity, and apart from this, there is no other debt in the entire portfolio in any other entity.

- Sarita Mulki:** So there was the promoter sub debt has that been written-off or how is it.
- Harsh Shah:** When we refer to the debt, we refer to the external debt that is to be owed by IndiGrid and its entities to any other parties externally. So as of now the promoter debt, which was due from SGL1 to the promoters, has been offered as a part of the swap to IndiGrid and therefore there is no debt outstanding from promoter or sponsor, Sterlite Power Grid, or any other entities to any other entities of IndiGrid.
- Sarita Mulki:** Okay, thank you.
- Moderator:** Thank you. We take the next question from the line of Puneet Gulati from HSBC. Please go ahead.
- Puneet Gulati:** Thank you so much for the opportunity. So, if I look at your portfolio which will be up for sale to IndiGrid, most of your assets probably except one are going to be commissioned by end of FY2019, so what more is in the pipeline beyond that if you can give some more colour.
- Pratik Agarwal:** The pipeline beyond that has two main sources. I think you are referring to the ROFO schedule which talks about portfolio rate assets which go up to FY2020 and then one to 2021. Now let us remember that these assets themselves can increase the EBITDA of IndiGrid by five times, so this is a sizeable portfolio. Coming back to my initial vision which I said about getting to a 30,000 Crores AUM so that gap between our current ROFO assets and Rs. 30000 Crores will come from two sources. The first source is that our sponsor continues to bid for more projects. As you know that India requires roughly Rs. 2 to 2.5 lakh Crores of new transmission spend over the next five years alone, just to meet its power for all requirements as well as to evacuate 175 gigawatts of renewable capacity that is expected to come up by 2021. There is a very ambitious transmission build out and Sterlite Power, the sponsor, has the highest market share in the country amongst all companies, public and private, in the space of the power transmission BOOM projects. So we continue to have a study pipeline. But beyond Sterlite Power, IndiGrid expects that there will be other asset owners with commissioned assets for whom the assets will be non-core and those owners would like to liquidate their stakes in those assets and hence IndiGrid will have a dedicated team to pursue third party M&A to reach overall vision.
- Puneet Gulati:** So, within the Rs. 2-2.5 lakh Crores, do you expect the entire thing to come up through TBCB route because a lot may also go in nomination is not it?

Pratik Agarwal: Correct. If you look at the last five years, you are correct that probably 70% of projects have gone through the nomination route but if you see the more recent phenomenon and the most recent tariff policy announcement by the Ministry of Power, I think that there is now a final sunset clause in place which says that except for strategic projects which are international in nature, all projects will come on the TBCB route and we have started seeing that phenomenon in the last one year. So, we I expect roughly 80% of projects to come on the TBCB route.

Puneet Gulati: And would the sponsor have enough bandwidth and financial muscle to bid for this?

Pratik Agarwal: So, the sponsors have two parts. One is the financial muscle, you rightly said and second is the bandwidth. The financial is, in fact, the listing of the IndiGrid was one major event where the sponsor's strategy is to recycle its capital and it has been able to do so and so that continues to be a source of capital along with other sources of private capital, group capital, and debt capital. So we see no shortage of capacity from a financing perspective. With regards to the execution side, the sponsor has a very large dedicated team, probably the largest in the country in the private sector, focused on power transmission and it also has a team of channel partners, the largest EPC contractors in the country, who have a track record of doing very large projects in the last 10 years. India executes Rs. 30,000 Crores of transmission projects every year, so that entire ecosystem is available. So, we do not see any challenge either in the contracting side, in the supply side, in the internal bandwidth, or in the financial capability.

Puneet Gulati: That is it. Thank you so much.

Moderator: Thank you. We take the next question from the line of Alok Deora from IIFL. Please go ahead.

Alok Deora: Good afternoon. Just had a couple of questions, one was on the distribution front, so this Rs.11 annualized which would be distributed that would be entirely in the form of interest is it?

Harsh Shah: Thank you Alok. Yes, it will entirely be in the form of interest.

Alok Deora: And going forward say if we take around three, five years horizon, it would be primarily dominated through the interest route only. Ss that understanding correct?

Harsh Shah: I think that will depend on how we acquire assets. Whether we are raising and how much amount of equity and how do we finance our assets, so it is difficult to predict five years down the line what is going to be the exact proportion but good part of it will remain as interest.

- Alok Deora:** And if say we raise this Rs. 1800 Crores debt which is eligible to be raised now and beyond that also we then look to get more assets so then we cannot raise more debt right. We have to then go to the equity route.
- Harsh Shah:** Yes, so I will just say two things first that beyond this Rs. 1800 Crores, there is a first level of limit is that if you are acquiring an asset you have an incremental leverage up to 50%. So that is something which you can borrow, then the other 50% of the incremental asset you need to raise equity. Within the raising of equity, there are two options available, one is to raise an equity from markets as cash and the second is to just offer units for sale, so which is a swap. Going forward, we feel that will also be a mechanism which will be available where a swap can be done for the shares of the new asset, which will allow to not really depend on the state of equity markets in that particular quarter or year.
- Pratik Agarwal:** I just want to add to that regardless of the form of acquisition whether it is debt, swap, or primary equity, in all cases, acquisitions will be DPU accretive so even if it is a transaction that is part funded by primary equity, we as a management will still look to acquire the assets at a valuation such that net of dilution it is distribution accretive to all existing shareholders.
- Alok Deora:** So when we say 3% to 5% DPU growth it is actually around 3% to 5% growth on around 11% is that...?
- Pratik Agarwal:** That is right. around Rs.11 correct. Rs.11 is the guidance for this year and 3% to 5% applies to the Rs.11.
- Alok Deora:** Okay so it would work around 11.5 or something then?
- Pratik Agarwal:** Per year correct.
- Alok Deora:** And just one last question see if one of the asset's life gets over say in 10 years' time and that affect then you are selling off in the market as a scrap, so if you are able to get some good value out of that and then how is that distributed to the unit holders?
- Pratik Agarwal:** So, firstly, all our assets, almost every single one of our assets, have close to a 32, 33-year residual life and that will continue but let me ask Harsh to answer the question on terminal value and disposal.
- Harsh Shah:** The first is, as Pratik said, it is more likely to continue as an operating asset and if at all you assume as a scrap or as a project, if you assume a sale of an investment infrastructure asset,

in that scenario the NDCF formula will apply and the NDCF formula clearly has a calculation that the proceeds of sale of the portfolio asset will form part of the NDCF addition and therefore will have to be distributed as a cash flow in that particular year, subject to the 90% limit. Therefore, to answer your question straight, we will need to distribute that amount to unit holders.

Alok Deora: But just to say if you are buying any new asset in that year then the NDCF is after adjusting is that correct?

Harsh Shah: If your NDCF is 100, only 10 can be used for acquisition of new asset, the NDCF is not a cash used for acquisition. The 10% of NDCF can be used for acquiring the assets which we can consider except in such resale scenario if it is a reinvestment approved by unit holders.

Alok Deora: Okay got it so that is would require approval and otherwise it would be considered as a NDCF where you will be distributing 90%?

Harsh Shah: That is correct.

Alok Deora: Thank you so much, that is all from my side.

Moderator: Thank you. We take the next question from the line of Dhawal Patel from Axis Mutual Fund. Please go ahead.

Dhawal Patel: Just wanted to understand when you will do the distribution to unit holders would there be any tax deducted at source?

Harsh Shah: Yes, there will be a tax deducted at source depending on the tax applicability on the nature of the unit holder and their status...

Dhawal Patel: No for mutual fund is specific like if we are... generally are our incomes are tax free in that sense.

Harsh Shah: That is correct and, for mutual fund, specifically we have taken a opinion and also disclosed in our tax treatment in the offer document that the tax is not to be deducted as per law and therefore it will not be deducted. So it is based on the Demat statement which we have as record of the status of the individual investor or institutional investor, the tax deducted at source will be applying based on that.

Dhawal Patel: Thanks.

Moderator: Thank you. We take the next question from the line of Ramesh Rachuri from Scient Capital. Please go ahead.

Ramesh Rachuri: Good afternoon Sir. First of all, congratulations on a good set of numbers. I basically wanted to look at this from a perpetual angle and so two points come in mind, one is your operating expense ratio do you have a target in mind or funds from operations how... could you throw some colour on that and where do you see... where do you target it eventually and the second question is, are buybacks allowed and do you have any such plan in mind as you go forward, if you could throw some colour on that? Thank you.

Harsh Shah: I will address your second question first - whether the buybacks are allowed or not. We believe that it is a legal question which is yet to be clarified by several regulators and we are not in a position to address that question in a firm way and therefore we are not sure that whether buybacks are allowed or not. And to add, our strategy also does not state that we intend to buyback units, considering that initial portfolio assets as well as our recent plan for acquisitions, we believe we have enough structures available to distribute cash either as a interest or repayment of loans from subsidiaries or as dividend, so in our current construct of things we are not considering the buyback. If you can please repeat your first question?

Ramesh Rachuri: Just to repeat Sir that when I look at it to my perpetual kind of investment kind of angles, I would concentrate on two things, one is (OER) operating expense ratio or the corollary funds from operations on an FFO basis if I want to value it, would you throw some colour on that and where do you see in India particularly and against peers and where do you see it going forward and so that will give some predictability to your target distributable yield that you have espoused.

Harsh Shah: Sure, so what I understand from you is that what is going to be our expenses in the P&L of the operating SPVs. Primarily there are three types of expenditure which our P&L has. The first one is on operation and maintenance expenditure which is for supervisory, minor replacements, minor repairs etc. This expenditure is primarily about 3% to 4% and it is a manpower intensive expenditure, so may go up with the inflation however it is in line with our inflatable component in our escalable charges and therefore even our charges will go up to mitigate this impact. The second expenditure, which is large enough, is an insurance cost that we pay. Transmission insurance is something, which is not covered, in the Indian Insurance Treaty and therefore we need to go to global markets and tie up our insurance, which we do. We believe that once there is a track record of transmission insurance in the

country and larger assets coming into place, as a percentage of AUM, the transmission cost per Crore of asset value we believe it will go down so that is not a probably an inflatable amount but that is something which we need to renew every year and the third is that the investment manager fee, like an expense ratio that you pay in a normal AMC which is also fixed at 1.75% of the EBITDA of the assets at a consolidated level and therefore it is also fixed and a predictable number which you can predict for the last year as well. Does that address your question?

Ramesh Rachuri: Yes Sir. Thank you.

Moderator: Thank you. We take the next question from the line of Dhawal Mehta from Edelweiss. Please go ahead.

Dhawal Mehta: Hi Harsh, you already mentioned that your collections are happening at 15 days while our distribution would be happening over 180 days and at the same time, your blended borrowing is coming to up 8% the question would be would not that be negative on the overall yield for you all and can you all move to or think of moving to quarterly payouts rather than semi-annual.

Harsh Shah: I believe we have taken a decision in the board meeting yesterday to move to a quarterly payout and the first payout which we agreed is a quarterly payout for first one month, the next payout, we will do in quarter two, which will be a full quarter payout in the month of October. So that reduces the, let us say, as a platform the negative carry that you can assume so we are already moved to the quarterly payout on that front.

Dhawal Mehta: Okay great thank you.

Moderator: Thank you. We take the next question from the line of Nisarg Ajmera from Edelweiss Tokio Life Insurance. Please go ahead.

Nisarg Ajmera: I just wanted to have some understanding on the debt that we have... that Rs. 991 Crores of debt we had so as per the DRHP we were looking to getting a debt of tenure of 10 years. Is there a reason that we took a debt of five years for Rs. 735 Crores?

Harsh Shah: I will address the first question. As of now we have a debt which is split in two buckets, first about 25% debt is already more than 10 years and the other 75% debt is a five-year debt, again, it is an amortizing debt and based on because we were tapping a capital market and the structure which allows an easier distribution as well as higher liquidity both at NCD level

where we are raising capital, we decide to do a five year. Having said so, we continue to evaluate long-term instruments to finance our subsequent debt and acquire and we have recognized that it is a five year debt as of now and we are working on addressing that as we take more debt, on a longer horizon, that will bring the portfolio at an average maturity of higher than 10 years or closer to 10 years.

- Nisarg Ajmera:** And just one more question can you just tell me what yield have we raised this debt?
- Harsh Shah:** This debt is at a 7.85% coupon.
- Nisarg Ajmera:** And just one more question though... do we for the force majeure... if in the eventuality that we have to the right of way that we have for all our assets do they have some maturity or are they for perpetuity?
- Pratik Agarwal:** The right of way is bestowed upon us under section 164 of the Telegraphic Act and that is in perpetuity. As long as we have a valid transmission license, our right of way remains valid and the ownership of the asset as well as the SPV is ours forever.
- Nisarg Ajmera:** Okay thank you.
- Moderator:** Thank you. We take the next question from the line of Deepak Agarwal from Elara Capital. Please go ahead.
- Deepak Agarwal:** Hello. Congrats for a good set of numbers and good to see that you moved to quarterly payout versus six monthly. I have only one question what is the applicable tax rate on this SPV because if I see this one-month statement the tax rate looks to be quite low so is it not that the entity would be eligible for at least net payment?
- Harsh Shah:** Your question is correct. On the tax rate, both the SPVs are companies on its own, so it attracts the same Companies Act regulations on both these SPVs. Both these SPVs have an 80IA benefit available for MAT. Having said so, as of now, the way it is structured, the IndiGrid has put in most of the capital in these SPVs as interest carrying NCDs and therefore at an SPV level, there is very little or nil taxability that is in the books of the SPV. The negative 0.5 that you see in the results is also provision for the quarterly number and which we believe that this year will be reversed and there would be no tax outflow at a SPV level.
- Pratik Agarwal:** This is an important point. Just to add to what Harsh said, we have optimized the tax at the SPV and the IndiGrid level because we believe that we should try and suck out as much cash

as possible and deliver in the hands of the unit holder and then each unit holder depending on the jurisdiction pays their own tax. So, we believe that for the initial years, this is a way out dealing with tax.

Deepak Agarwal: So I think that for at least for next few years there would not be any tax rate metric that would be applicable to each of these SPVs and hence at the IGT level?

Harsh Shah: Yes, that is true.

Deepak Agarwal: And my just one clarification I needed just as a statement which I see P&L that is the reversal of the financing interesting some provision that has been made earlier which has been reversed, so any more provision that has been still there in the books which has a potential for reversal in some next 12 to 18 months?

Harsh Shah: No such provision and as you ask the question I will just explain. At the time this provision was made before the acquisition of the assets from the sponsor, as the assets are acquired from the sponsor subsequent to that because there was no cost attached to it, the provisions were reversed. It was just an accounting treatment and there was no cash outflow on account of that. There are no such pending provisions going forward and therefore we do not expect a reversal of any such provisions.

Deepak Agarwal: Okay fine thanks for the clarification.

Moderator: Thank you. We take the next question from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Thank you for opportunity. Sir my question is suppose in any eventuality this transmission projects there is a fixed tariff which we are getting so if it is a revised downwards or cancel is there any possibility is there then what measures we are taking to avoid those risks.

Pratik Agarwal: These transmission projects have been awarded through a competitive bid process, where multiple parties have participated and quoted a number and then the party that has quoted the lowest tariff, that tariff has been formally adopted by CERC under the Electricity Act 2003. So, these tariffs are completely bound by the Central Government laws and regulations. Now, in our knowledge, no transmission tariff has ever been arbitrarily revised. We call this entire regime Section 63 of the Transmission Electricity Act, there are other projects under Section 62 which get revised from time-to-time based on the adjustment under the regulator but projects under 63 are fixed tariff projects and there are many projects awarded under the 63

which is generation as well as transmission as well as solar and we have not heard of a single situation where a project's tariff has been revised downwards for a project that has been issued under section 63 of the Act. So, we do not believe this is a material risk at all.

Sunil Kothari: And Sir one more another maybe simple question. If power is not transmitted by whatever result, there is no generation, even then we get fixed charges right.

Pratik Agarwal: Exactly. We have no relationship with the flow of power. Many times there is zero flow a few days in a month but we still get the full revenue.

Sunil Kothari: Great Sir. Wish you good luck. Thank you very much.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants, I would now like to hand the conference over to Mr. Agarwal for his closing comments.

Pratik Agarwal: Thank you so much, we are really delighted by the sheer participation and interest in this new product. I firmly believe that we are entering a second phase of India's PPP regime, where I believe a large chunk of India's infrastructure, \$1 trillion infrastructure will get build through the PPP route and I believe that the InvIT and REIT are going to be the breakthrough products through which Indian Corporates will finance their infrastructure plans. I think this is the good start. I see a lot of interest from all the right buy side and sell side teams and I am really looking forward to remaining in touch will all of you and keep you updated on our future plans and I have mentioned that we have a very big vision for IndiGrid. We plan to take it to a Rs.30,000 Crores AUM in the next five years making it one of the largest power transmission platforms in the whole world and our plan is to make it not only the biggest but the most admired yield vehicle in Asia on aspects of transparency, governance and risk-adjusted returns. Once again, thank you for your time and we look forward to talking to all of you perhaps in one quarter from now.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.

(This document has been edited for readability purposes)