"Conference Call on Recent Announcement and Business Update of IndiGrid Trust"

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MODERATOR: **MR. SWARNIM MAHESHWARI – EDELWEISS SECURITIES LIMITED**

Moderator: Good day, and welcome to the Edelweiss Securities Limited Conference Call on Recent Announcement and Business Update. 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. Swarnim Maheshwari. Thank you. And over to you sir.

Swarnim Maheshwari: Hello, everyone. I welcome you all on IndiGrid Trust Call to Discuss the Recent Announcements and Business Development.

I hope all the participants and the near ones are in the best of their health.

From the management, we have with us, Mr. Harsh Shah – CEO; Mr. Satish Talmale -- COO, and Ms. Meghana Pandit – Head, M&A.

I would now like to hand over the call to Mr. Harsh Shah for his opening remarks and post which we will have a detail Q&A. Over to you, Harsh.

Harsh Shah: Yes, thank you, Swarnim. Please accept my apologies for the delay; we got stuck because of a technical glitch.

I am sure you are all at home and I hope all your near and dear ones are safe.

We will go ahead about the presentation which we have disclosed along with the AGM notices. We will go about overview of our business and vision quickly, then an update about the business for last quarter and a few decisions on M&A which have come for voting to be listed out in detail. Subsequently we will address question-and-answer.

Coming to slide #4 of the presentation: After the last acquisition today, IndiGrid is India's only power transmission yield platform, we have about 12,000 crores of assets under management now and asset pipeline of another 6,500 crores. As a portfolio we have about 20 transmission lines and four substations, encompassing 5,800 circuit kilometers and 7,735 MVA capacity of transmission across 13-states.

We are AAA rated and our rating agencies have affirmed our rating even in the credit markets.

We have perpetual assets with a long 32-years of residual contract life.

On slide #5, to briefly touch on our vision, our vision remains to become the most admired yield vehicle in Asia by ensuring that we follow solid fundamentals of transparency, governance and provide superior risk adjusted returns to our unit holders. And the three pillars of the vision are to achieve 30,000 crores AUM by 2022, while delivering a predictable DPU and growing that, while following best-in-class corporate governance.

Now coming to the business update on slide #6. In the earlier quarters, we have not provided any business update before the quarter-end results were published. However, considering the extraordinary situations related to COVID, we believe that it was important to share some of the key facts on our business operations and financials. Therefore, we have come up with this interim update regarding our business.

Considering the COVID scenario, audit calendars are slightly slow and therefore unlike our usual practice of closing the quarter and the year in the month after the quarter ends, we are expecting slight delay, and we will have our year-end closing meeting sometime in the month of May.

The left side of the slide is about the “Business Update.” We announced the closure on acquisition of ENICL worth Rs.1,020 crores. This acquisition was concluded on 23rd of March amidst a lockdown. We could conclude such a large and complex acquisition with our entire team stationed at home. This is because we had done tremendous preparation before the COVID kicked in and therefore we could go ahead with our business as usual and even acquire the projects as scheduled.

Our business model is robust. Our contracts are based on availability-based revenue which is independent of quantum of power flow. Therefore, even if the power demand in the interim comes down, we do not have any immediate impact on our business model or in revenue. Besides that, transmission is declared as an essential service, so we do not have any local restrictions of travel on our maintenance team. Our corporate team remains safe at home; however, our maintenance team including some of our channel partners are working round the clock to ensure the transmission lines and substations are maintained and are available.

The next point on this section, pertains to some news article from a couple of weeks back. It spoke about moratorium, which we believe was caused by confusions of some press releases. It has been made amply clear by an order of CERC as well as a circular issued by Ministry of Power, that there is no moratorium on transmission charges. The only waiver which is provided to customers is that late payment surcharges which used to be 1.5% a month, 18% p.a. have been reduced to 1% per month which means around 12% p.a. This is also clarifying that from first of July onwards, the LPS which is Late Payment Surcharge will increase back to 1.5% per month or 18% per year. In addition to that, in another circular, Ministry of Power also clarified that they are making all the efforts to ensure that liquidity is provided to the sector & Discoms. While there is no such announcement now; however, that gives a directional message that there are no moratoriums in this business.

Coming to "Financial Update". Our operating performance for Q4 has remained in line with our expectations. Our availability is greater than 99.5% and we are going to earn the maximum incentive for our portfolio.

On the financial performance, which is based on provisional and unaudited Q4 numbers, our collection in the Q4 was 108% of our quarterly revenues. Our Q4 revenue is about Rs.328 crores. This has happened because this quarter reflected full performance of the *line (some of the lines were acquired in the middle of quarter in the last year)* resulting in the collection of 108%. This was the highest gross collection quarter in the last year for us.

The next point is about cash generation. After paying our financial obligations, liabilities as well as change in working capital, our net distributable cash flows that we have earned under consolidated basis, is greater than Rs.200 crores in this quarter. This also remains one of the highest quarterly cash generation that we have seen over the last two and a half years. It is attributable to the growth in our portfolio as well one of the strongest quarterly collections.

Closing cash balance, net of all other financial obligations remains at Rs.475 crores. This is important number because it strengthens the balance sheet and provide substantial amount of cover. To give you a perspective, our quarterly interest outgo is about Rs.129 crores. So, we have enough cash cushion for almost nine months' worth of interest outgo.

Our net debt to AUM remains at 49%. I will say on the financial side, we have had a phenomenal quarter in Q4, we have closed the year with a very strong balance sheet both in terms of lower leverage and higher cash available. As we enter Q1, where we may have slight impact of COVID in our business, I believe that the impact will be minor considering we are an essential service and have little dependence on the quantum of power. However, the billing cycle has been delayed by around three weeks for most of the transmission customers. And therefore, we believe that in the month of April and May, there might be slight delay in collections because of the billing cycle getting delayed. However, we are confident that the amount will be recovered in the latter half of Q1. We are also exiting Q4 with substantial amount of cash cushion in the balance sheet.

Coming to the next section of my presentation, the M&A Update. As we have been consistently communicating, we have a large asset pipeline for growth in our asset base and to increase the NDCF and overall returns to investors. This slide depicts the portfolio today and the lines and substations on which we have a framework agreement with Sterlite Power. The acquisition of GPTL has been announced for voting by investors. Once the investor voting completes and the definitive agreements and condition precedents are completed, we will look to acquire it in Q1FY21. The other two projects are on track and they are in process of commissioning. As and when they get commissioned over next 12-months, we will look to acquire.

On slide #9, is a brief description of ENICL acquisition which we completed on March 23. This is a strategic line acquired from Sterlite on which we had a right of first offer. This acquisition did not require any dilution because we had already funded the equity required for this acquisition in our last preferential issue. The balance has been raised by debt. We have raised about Rs.900 crores debt from Axis Bank at about 8.0% rate. We closed this acquisition in March 23, at the beginning of the lockdown period.

The next slide is about the GPTL acquisition which has been approved by the board and is subject to positive vote from our investors. GPTL is a very important asset for NCR region. It is going to provide the 24x7 electricity required for Gurgaon which effectively may make Gurgaon DG sets free. It will be able to provide reliable power supply to the entire Gurgaon region. In addition, this is India's first vertical GIS substation which makes it unique on the technological front. GIS substation is a gas insulated substation, it is practically put in the place where space is constrained, and the land is expensive. A vertical GIS is a unique concept and it is the first one in India. This ensures that the space used, or land footprint is further reduced. There are three substations in this line. All of them are vertical GIS and we are proposing to acquire this line.

The additional details about the acquisition are: We may acquire the asset with an enterprise value of up to 1,075 crores on zero cash and normalized current assets basis. This will be done at approximately 8% discount to the FMV. This is the same method which is used to calculate our NAV and published by the valuer. The valuer report is also available for evaluation with the investors.

Upon acquisition of this asset, our net debt-to-AUM will still be approximately 53% only. We have substantial headroom available for further acquisitions. Directionally, after paying the financing cost, the working capital changes and operating cost involved in this acquisition; about Rs.35 crores to Rs.40 crores per year will be the net distributable cash flow accretion on account of this acquisition,. ENICL acquisition will also add approximately similar number in terms of accretion of NDCF per year after paying the financing cost.

The board has approved the acquisition and the postal ballot approval in which electronic voting can be done by all the investors is open till 10th of May. We will look to acquire this asset after the positive vote from the unitholders.

The next section of our M&A strategy is very important and a new one. With almost three years of track record of robust operations, increasing our DPU, and consistently acquiring assets as well as growing our shareholder base and raising capital, the board had several sessions to evaluate what are the further avenues of growth for creating value for IndiGrid unit holders. We focused largely on areas which have adjacencies with our existing business and have similar risk-return profile and where IndiGrid will have a competitive advantage. Therefore, we focused on assets or rather sectors where they will be no price risk because of a long-term price contract and a limited volume risk if at all because when you acquire a project with a track record of generation, the risk of resource variability is relatively low.

On the left side on slide 12, key rationale has been listed out. We believe that larger the pipeline of assets available to acquire, the better chances for IndiGrid to acquire value accretive projects. We will be able to focus on projects and create pipeline opportunities which are more accretive for our investors.

Renewable Sector has been maturing in India from the first few assets till date, over a 15-year duration. We think that there are strong growth drivers in place for the sector. We see an attractive opportunity to acquire good quality projects with high predictability of cash flows from operational assets which have long-term contract and good counterparties. All these words are chosen carefully and made part of our strategy which is presented on the right side. We also focused on having adjacency with our core business of transmission, which we can leverage to have a competitive advantage in terms of asset management, financial credentials and industry networks.

Our strategy is going to focus on only solar projects with good quality construction, which includes tier-1 quality modules and built with impeccable quality. Projects with long 20-25-year contracts, strong PPA frameworks, and financially strong counterparties which will mean that counterparties like SECI or NTPC which are central government counterparties or one of the very good payment states like Gujarat. Our business plan will remain focused on such kind of counterparties.

In addition, it is important to note that our diversification strategy will be executed gradually. We will remain primarily a transmission utility with about 75% to 80% of our assets and our EBITDA will be generated from transmission projects. Even our expansion or the diversification into solar will be executed with care gradually as we look for the highest quality products. Our focus will also remain on ensuring that these acquisitions are substantially accretive to IndiGrid cash flows without taking too much incremental risk.

Without dwelling much into detail, our focus is to maintain our AAA rating and we have done several rating analysis exercises in which we have committed, and we will ensure that our interstate transmission assets will remain 75% to 80% of our portfolio, thus giving a greater comfort in maintaining the AAA rating.

Next slide is about IndiGrid's focus on Stable Solar Projects. It highlights critical aspects of a good quality solar asset - having Tier-1 Equipment, counterparties like SECI, NTPC, GUVNL, long-term PPA life of 20-plus years, assets with good PPA framework and strong legal framework. We will focus our expansion in the solar vertical in these categories only.

The last slide lays out the risks involved in solar projects and how we believe some of the risks are already mitigated or can be mitigated by choosing the right set of projects and right set of contracts. We are choosing to expand to solar sector in a very careful framework, while our focus remains on operating solar projects with long-term contracts and with strong counterparties like SECI, NTPC and GUVNL. We believe that the solar projects also present very low operating risk especially when they have a track record. Acquiring projects with good quality equipment with low risk and stable cash flows, synergies with IndiGrid's core business model of owning transmission assets and synergies with IndiGrid's financial profile and ability to give sponsorship, we believe we will be able to identify good quality solar projects which will create value for IndiGrid investors.

To sum it up and open the call for questions, I will reiterate starting from the business update. Our business is robust, availability-based revenue and therefore we do not see a material impact on account of COVID on our business model. On maintenance side, considering that transmission is declared as an essential service, our people on ground are maintaining the lines and we are not seeing any risks out there. No moratorium or transmission charges have been provided by either CERC or MOP, rather MOP has disclosed that they are going to inject liquidity in the distribution companies if there may be a need.

On the financial update, Q4 has been one of the best quarters in terms of the highest revenue, highest collections, and highest consolidated cash generation. We are ending the year with a substantial amount of cash in our business and therefore, I will say we have a strong financial profile to see through challenges on account of COVID.

On our M&A acquisition pipeline, we closed an acquisition of about Rs.1,000 crores in a tough environment, that indicates financial investors' trust in our ability to manage the risk and acquire projects. We are recommending acquiring the next project or approve the next project acquisition of Gurgaon Palwal Transmission Limited of approximately 1,080 crores. We are looking to diversify into a new sector in a gradual manner which results in value creation for IndiGrid investors.

That was the summary from my side. I will request Swarnim to open the call for questions-and-answers.

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

Mohit Kumar: First question, the valuation of Gurgaon Palwal in the framework agreement was 10.25 billion. Why has it changed to 10.8 billion, is there any reason? Secondly, since you are going to fund this acquisition mostly through debt, has the credit market tightened post the COVID and how to you look forward to tying up the debt for this particular asset? Thirdly, as for late payment surcharge, we are governed by our own TSA, so we are not governed by CERC. I believe our late payment surcharge will be in the range of 1.25% to 1.5% depending on the contract. Fourth question, how do you plan to acquire the next two assets given the fact that the leeway we have right now is around 30 billion and both these two projects together Gurgaon and the other one NER, the valuation is roughly around 47-odd billion?

Harsh Shah: Thank you, Mohit. So, to answer your first question on GPTL valuation, GPTL valuation was in the framework agreement, Rs.1,025 crores at the cost of debt of 9% raised by IndiGrid. If we are able to raise debt at a lower cost, we will be required to pay an additional Rs.25 crores on 25 bps of saving and if we were to raise cost of debt at 9.25 the valuation will reduce in that manner. Considering where we are seeing the market today, we believe that we will be able to raise the capital at 8.5% or lower than 8.5% cost of debt. Therefore, the approval is for up to Rs.1,075 crores and not at Rs.1,025 crores. So, as we raise capital after the approval, those numbers will probably come down. So, it is done exactly as per the framework agreement. That also partly answers your second question. Yes, credit capital markets are seeing the squeeze considering the redemption and the overall issues. However, credit markets are supported by banks and IndiGrid being rated AAA and offering a very good credit, we believe that we will be able to raise debt at the right cost and tenure. The reason why we have kept Rs.1,075 crores as up to value, because we are confident to be able to raise debt at 8.5% or lower than that. Having said so, if we are going to raise debt at a cost higher than that, the valuation will reduce correspondingly. Your third question I believe was regarding our growth of assets to 30,000 crores. With the current capitalization and the Framework Assets (Gurgaon, KTL and NER), we will be able to grow up to 18,000 or 19,000 crores Plus another 1,500 crores of other projects from the balance debt headroom which can increase the AUM to more than 20,000 crores.. For anything beyond 20,000 crores, we will look to raise capital by rights issue. Now, in reference to timing, whether the new asset acquisition and rights issue is sequential after acquiring NER, or as and when see the opportunity of other assets, will be dependent on the market factors and when we see a strong pipeline beyond the framework asset what we have capitalized for. I hope I have answered your question.

Mohit Kumar: I believe the late payment surcharge has increased, TSA which is a higher rate compared to CERC rate.

Harsh Shah: You are correct. In this case the TBCB assets are about 6%, 7% of the entire portfolio, and therefore, the billing happens as per contract. Typically, this differential of LPSs gets reconciled at a year-end. For all practical purpose, people follow the Power Grid method on late payment surcharge at least while raising bill and paying. Therefore, whatever is the minor difference between 1.5% and 1.25% or 1% and 1.25% gets into reconciliation at the year-end and gets factored into a new billing if there is anything over-recovered or under-recovered. But these numbers are small and therefore it does not move our P&L in a material way.

Moderator: Thank you. The next question is from the line of Hitesh Arora from Unifi Capital. Please go ahead.

Hitesh Arora: Just wanted to check, at the end of this financial year, what will be your working capital receivable days? On your new strategy, you have been talking about increasing your AUM to Rs.3,000 crores in the past, but that did not include the solar assets. So, what is the motivation now to include solar assets as part of your expansion strategy? Solar requires a certain amount of expertise, most of the management has worked in transmission assets for 10, 12 years. So, your sponsor is a strong player in the business. So, there is a lot of expertise that is built over the years which you now deploy in the business. So, from an expertise perspective, what gives you the comfort that in a business area that is relatively new, you will not face new obstacles?

Harsh Shah: Thank you, Hitesh. So, to answer your first question, our working capital debtor days are 55-days at the quarter end, this does not include the unbilled revenue. But pretty much 55-days will mean that we are pretty much at a contractual outstanding. The next question is about why solar and 30,000 crores. So, as we have been saying, Rs.30,000 crore is a large number which we aspire to reach. Our focus has always been on accretive acquisition. So, if we have to choose between size and accretion, we will always choose accretion. What accretion means is that after paying for the operations, the finance cost and if at all dilution is involved after dilution, that acquisition needs to result in higher NDCF for each unit holder. So, our focus remains on accretion. Now, our expansion to solar assets has nothing to do with the 30,000 crores target. Expansion to solar assets is based on the strategy that today we in the market with a strong balance sheet, we have a strong presence in the power sector, and we have a strong presence in the financial sector in terms of networks and credentials. We see a lot of consolidation happening in the solar market. We believe that there will be attractive opportunities to acquire solar projects, add better returns than what we make in transmission and overall add better accretion for our unit holders. So, I will say we are not doing this for the size. We are doing this to ensure that we leverage our competitive advantage, operations and financials to be able to take advantage of the market situation and overall result in a better value creation for our investors. The third point that you mentioned is an important one in terms of capability building. Before we reached this decision to bring it to investors for vote, I will say that in our management team, including myself, Satish, and the M&A team, in our earlier careers all of us have dealt with substantial amount of renewable energy, either in financing or acquiring or operating. For example, Mr. Satish who is our Chief Operating Officer had been leading O&M for GE across India in wind and solar sector. Now wind is a far more complicated sector compared to solar. So that experience and expertise exists in our management team today. Besides that, over last six months before we reached this stage, we have built significant capability in terms of setting our own standards, diligence processes, hiring some people to ensure that, as you rightly put, we need to have specific operating capability in-house and we believe that with the top management having experience in either financing, operating and acquiring solar assets or renewable energy assets. We believe that we are in a good place to acquire and operate some of these projects.

Hitesh Arora: So just the last question on the timelines for your payout. Is that going to be in line with earlier quarters or did you mention that there could be some working capital impact on account of the COVID shutdown that payout timeline?

Harsh Shah: The Q4 distribution gets made in Q1 of this financial year. Distributing Rs.3 a unit, we need to have 175 crores of NDCF to be created in Q4. We have the NDCF more than Rs.200 crores in Q4. So, we have enough of cash that we have earned in Q4 to make the dividend payout. However, the dividend payout gets done after the board meeting and its decision at the end of every quarter. Because of the COVID and the lockdown, our board meeting is going to happen in May instead of April, which had been the trend in the past. So, the decision of dividend payout will be made by the board in May. So, I do not have the exact date to be provided for now. Having said so, I can tell you we have enough cash in Q4 against Rs.175 crores of NDCF, we have earned more. So, unlike some of the earlier quarters where we had used the reserve, in Q4 we have added to our reserve. But the specific answer to when will the distribution payout be announced? It is a board decision and will happen in May.

Hitesh Arora: Is it necessary to have an in-person board meeting?

Harsh Shah: No, it need not be in-person board meeting. Ministry of Corporate affairs and SEBI both have given us an exemption. But for board meetings to happen, we need to complete our audit for the year-end and considering this is a full financial year-end audit, and our annual report will be also based on this, the audit calendars have got stretched.

Hitesh Arora: Assuming that there is an impact this quarter for reasons other than cash flow, the subsequent quarter, are there cash flow implications that might impact timelines for dividend?

Harsh Shah: Timelines for dividend and the cash flow are substantially different items. The timeline for dividend is only linked to a board meeting and board meeting plus 15-days is our target every time. Hence it is completely different than the cashflow. Now, if considering the fact that we have been maintaining reserves for ensuring that any quarter there is a shortfall so we can use some amount out of reserve, in Q4 we have built up the reserve and therefore if this lockdown ends in May or things open up in June onwards, we do not see material impact on the quarters going forward.

Hitesh Arora: An year or two from today, when you have the other two projects within the fund, and maybe some more accretive solar projects, the aim is to get the current DPU of 3 rupees per quarter up to a higher number?

Harsh Shah: Yes, our aim is to increase our NDCF. The aim of increasing DPU is backed by more acquisitions and more NDCF. So certainly, we will look to do that.

Hitesh Arora: Oversimplifying my question, can DPU increase from 3 rupees to 3.5 or 4 rupees?

Harsh Shah: We have not given a formal guidance. So, for me to say three can become four is not appropriate. Whatever we earn out of our cash flow, 90% has to be distributed, current DPU of 3 rupees per quarter translates to 175 crores a quarter. Rs.700 crores per year of cash that we generate, leads to Rs.12 that we distribute in aggregate annually. If we earn more than 700, we will be looking to increasing the DPU. Now whether it will be 4, 3.2, or 3.5 and the timeline for that will be difficult for me to provide today. But as and when we complete these acquisitions, followed by our Q4 board meeting we will be providing a guidance for subsequent 12-months. We will look to include our strategy of increasing DPU in that annual guidance.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Assets. Please go ahead.

Sunil Kothari: Sir how big are the opportunities in power transmission sector? Is it sufficient to increase our AUM to Rs.30,000 crores or you see some limitations?

Harsh Shah: I will describe the opportunity set in transmission market into three buckets. Bucket number one is our framework asset, which we already signed, and therefore that is something which is available and visible for us to acquire. Bucket #2 has assets that are getting bid right now. For example, if COVID issue was not there, in the month of April, there were about 10,000 crores to 12,000 crores of assets which were coming up for bidding in auction. Those would have been be our second bucket of opportunity which will become available in two, three years' time as and when they are commissioned. The third one is assets available with people who are not consolidators. Consolidators are not a utility but involved only into development. For example, let us say Sterlite Power is one of the developers who will look to monetize some of the projects. Similarly, there are other developers or conglomerates who have acquired transmission lines at certain point, and they will look to monetize. So that is the third bucket. Between these three if I were to sum up the visible pipeline the number will cross about 25,000 crores. When they will come to the pipeline, when we can acquire them, etc., is based on which bucket matures. But it is a sizeable opportunity for us to acquire and grow.

Sunil Kothari: Harsh, in your opening remarks, you said that this solar opportunity has similar risk and return ratios. In previous reply, you said there is an accretive opportunity. So, I want to understand, since it is a better or higher return generating opportunity, which are the additional risks we are taking? We as unit holders always try to cover the risk. Over and above this Rs.12 DPU, and can it hamper long-term return ratios. I am also talking to some other investors because when we met in the last AGM, there was no talk of other diversification. We are now exploring generation asset, not just transmission, hence I am concerned.

Harsh Shah: If you go to the slide #14, like any other infrastructure business, there are technology risk, operational risk, contract risk and regulatory risk. So, it is about our ability to manage these risks in a professional and in-depth manner. After addressing these risks our approach is to acquire them at a better price. For example, the technology risk, which is that how your modules are going to last long, do you have enough warranty etc. This must be addressed by acquiring projects with top quality modules, which have a track record across the world, not just in India, and therefore that addresses this risk. On an operating risk, I will say that solar projects have slightly lower risk, reason being they are modular projects. A common panel is a 300-watt panel. In a 100 MW plant there are thousands of such panels. So, if a few panels fail, your generation does not become half, it goes down by a miniscule percentage. In comparison to a transmission line, if out of 1,000 towers, one tower is down, your revenue can be zero. So, from an operating risk perspective, solar power projects are far more diversified or rather easier to manage because they are in the same premise and they are modular. The impact on your revenue is also modular to that extent. So, I will say the operating risk of solar is far simpler and easier versus what we are already used to managing currently across the country. Third is commercial which is a very important risk. We have kept large part of our portfolio, with the PGCIL backed POC contracts. We plan to continue to do the same substantially even in the solar. So, for example, SECI or NTPC contracts have similar receivable days, we have not seen delay in them, and they are backed by the central government entity. We have been monitoring that track record very carefully and choosing the right set of solar projects which do not have a receivable risk. Last factor is whether the regulator is strong. We are focusing largely on CERC governed projects and therefore we are getting the same kind of safety. If a transmission project goes for a particular EV/EBITDA multiple, solar projects we are acquiring will be at a lower multiple. So, we are getting compensated for this slight bit of extra variability that we are taking.

We are not doing this for size, we see a good opportunity in the market right now to add to a similar kind of risk-return profile to our business. Across the world people look at it as a great synergy between transmission and renewable energy and therefore, most parts of large InvITs REITs even in the US or elsewhere, mix these two asset classes. We are maintaining 75%, 80% of our portfolio in transmission which has been our core. We are only looking to diversify in a gradual way, in a safe way into strategic assets which will add to yield accretion to our portfolio.

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

Nilesh Karya: Two questions. Both might be theoretical. One is that given the new tax regime for your unit holders, you might have to decide on which corporate tax that you need to go by, whether it is 25% or the 35%. Given that we still do not have dividend component in our distribution, but we might have after a few years. And the second question is more theoretical. As a trust we receive interest, dividend, and principal repayment. But when we pay out the interest, principal and dividend, does it have to be in the proportion in which we have earned or you have to net off your interest against the interest payout of the trust, your principal against the principal payout of the trust?

Harsh Shah: Nilesh, both are important questions. As we complete the year end financials and get them audited, we will come back with specific assets in which we are taking 25% tax rate and specific assets where we are not taking 25%. We are choosing it strategically based on a particular asset cash flow and whatever is the best optimal choice of tax regime that we are choosing. We will get back to you with the quarter end results and publish financials and valuation reports. The second question that you asked is with respect to interest principal and dividend. There is a principle of nexus that is applied. A portion of the interest is backed up against the interest cost, the principal cost is also backed up against the principal, which is amortized, and the operating cost is used for the operating cost. So, we try to do it in the same way IGT has received. So, for example, if IGT has received interest, interest will be taken out of that amount. If IGT has received principal, then the principal will be paid out of that. So, the principal of nexus is applied in line with the tax rules.

Nilesh Karya: Can you have a mix of both, some assets having 25% as the tax regime and some as 35%? Will that not confuse the investor in terms of on which component one needs to pay tax?

Harsh Shah: All of them are different legal entities and therefore, we need to look at what is most optimal for investors to get best cash out of that asset. I do not think that from the existing assets there is going to be a substantial dividend component for the foreseeable future. Therefore, I do not think it will be confusing. When we do it, it will come with appropriate disclosure of what asset it is and how it will be applied so that investors do not need to think beyond that. Even now, we clearly articulate in our distribution advice the interest component, principal component, dividend component. Later we may have to classify as Dividend-A, Dividend-B etc.

Nilesh Karya: I just wanted to understand if you can have a mix of both?

Harsh Shah: Oh yes, all legal entities can choose different structures.

Moderator: Thank you very much. The next question is from the line of Swati Mehta from Tata AIG General Insurance. Please go ahead.

Swati Mehta: I have a couple of questions. Will GPTL be completely funded by debt? The second question is what was the tenure of ENICL’s Axis Bank loan of Rs.900 crores?

Harsh Shah: So, the first question GPTL will be funded by debt because the equity required for that at 30% has already came in May 2019. The tenure of ENICL loan is five years.

Swati Mehta: And what tenor we will be looking for GPTL?

Harsh Shah: We are evaluating a 4 to 10-15-year tenor structure. So as and when we close in May, we will look at a longer-term structure.

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

Sarvesh Gupta: In two projects that we are acquiring, NDCF creation will be around Rs.35 to 40 crores, so assume that together they have Rs.75 crores additional, that is around 1.25 rupees additional DPU which is possible in the coming year. Hence, can the guidance be increased from Rs.12 to like Rs.13.25 rupees?

Harsh Shah: It is a valid question. We have just acquired ENICL right now and we have not yet acquired GPTL. The guidance for FY'21 will be issued in May after the board meeting, looking at when GPTL is closing and by when it is going to add to the final NDCF plan which we will approve for FY21.Yes, Directionally what you have said is right, Rs.700 crores is what we have, Rs.75, Rs.80 crores more that we are earning this year if we close it in a particular timeframe. The answer is yes, we will earn more than Rs.700 crores with these two and that is the motive of NDCF accretion. However, the DPU guidance is issued after a lot of deliberation and review, looking into three to five years of plans of all acquisitions. And that is something which we as a company will be able to give in the Q4 board meeting in May.

Sarvesh Gupta: And what is the IRR for these projects?

Harsh Shah: Project IRR definitions keep changing between different people. Our EBITDA projections are available for everyone to review. Most of the projects that we have acquired till now have IRR higher than 10% to 10.5%. So that will be a directional number. Now, there can be some projects we have required at 11%, some of them at 10%, it will be different for different projects. Secondly, we have mentioned extension. I will say that we do believe in the extension even beyond 35-years. There is a credible business case, regulatory backing for ensuring that contract gets extended beyond this period and therefore we do factor that in. The impact of that in today's terms will be 30, 40 bps, which is also factored in.

Sarvesh Gupta: Regarding this new diversification, I understand that this can be more accretive from a yield perspective. But it can also induce a factor of variability in the DPU going forward which some investors may not like. Now the postal ballot is already out, but if you had mentioned that this will not go beyond a percentage of AUM, then probably it would have been an easier decision for many unit holders.

Harsh Shah: You have highlighted an important point. I will highlight the difference of why it is not there in the postal ballot and why it is there in the strategy. The variability that you mentioned is one of the reasons that we have guided that we are going to do maximum 20%, 25% of all the projects. This means that even if at the highest level of 25%, if you look at 10- 20% big variations in revenue, it turns out to 2-3% variation on the entire 100% revenue. So, the idea to keep it low is primarily to contain the risk on both variability and collections on the overall portfolio. So, that is the main reason to keep it low. Secondly, there are natural barriers on the percentage of acquisition that we can do. For example, for us to acquire assets competitively, as well as strategically and maintaining a balance sheet and financing, we will look to maintain AAA rating. We will be giving such covenant to rating agencies which will also be publicly available that this company has stated that they are not going to cross a percentage threshold. So, when we come to actual closure of the assets and ratings, we will be announcing policies which will clearly outlay that this is the headroom that we are maintaining for further assets. The reason why it is not included in the charter documents is that the charter document typically captures the broader enablement and such amendment is a long-term process. But the business strategy will be far narrower, and you will see more communication coming from us to rating agencies and covenants which will give adequate comfort beyond just the presentation.

Sarvesh Gupta: Since you have been mentioning yield accretive in acquisition, are you looking at yield on the market price or are you looking at yield on Rs.100?

Harsh Shah: We look at yield on two levels. We do not look at Rs.100, we look at our NAV which can be higher or lower. Secondly, we look at the market price as well. It changes with respect to the cap structure with which we are looking to acquire any asset. For example, if asset base is at 19,000 crores, and we are looking to acquire a project which requires a new capital raising, then that becomes the base. If a capital raise is already completed and we are only doing it as a funding for third-party asset or other growth which we did not factor in, for that we look at both the current market price as well as NAV. So, the association with Rs 100 as a base to calculate yield is not true. Reference point will be NAV and the trading price.

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

Kunal Agarwal: You have to distribute 90% of the cash you guys get in the form of DPU. But is that accounted on a cash flow basis or on a P&L basis? So, if you an amount in accounts receivable do you still have to pay out 90%? And if so, do you need to borrow to make that happen? The second question is on Power Grid's pooling mechanism, but they have got to talk to the Discoms too. What is the general state of health of the Discoms? What is the impact on Discoms liquidity especially if their customers stopping them? Will support from the RBI or from the central government which will help IndiGrid to pay its obligation?

Harsh Shah: So, answering your first question, the net distributable cash flow formula is approved by board, the offer document is SEBI approved, and available publicly. It is not a P&L number. It talks about after the working capital changes. It is non-cash item adjusted for and the exact cash generation that has happened between the period is the NDCF. So, that is not a P&L number, it is a mix of P&L and balance sheet basis a cash flow that is earned in the period. Your second question is with respect to our eventual customers. Power Grid collection mechanism is just a pooling mechanism. They collect from the eventual customers. There is sufficient news about Discoms, and their financial health is not great. I will not say that the financial health is phenomenal, and especially over last month the collection must have gone down. So. that is the reality. To put things in perspective, inter-state transmission charges are low single digit percentage of the total P&L of the Discoms. So, it is a smaller number. Second, it comes in the waterfall before the interest. So, it is an important money to be paid by them. Third, CTU, which is the Power Grid, has LC as a security against these payments for a couple of months. And fourth is that the CTU can regulate power in case they want to recover the money. Now, simply put, during stress, they pay the essential services, and within essential services transmission comes on the top, because it is payment towards the central utility, also because it is a very small payment. So, these two principles keep us higher in the value chain. Where do they pay from? It is difficult for me to comment on which Discom will pay from which liquidity source. If the operating cash flow is hampered, most of them are borrowing, may be at a higher rate. But if they do not borrow at a higher rate, the next rate at which they are deferring the payment is 12% or 18% a year. So, the penalty on delaying it to a CTU is substantially higher. We have received on an average 55, 60-days receivable till now, even in this so-called worst time. We are confident that they will keep honoring that.

Kunal Agarwal: I guess Power Grid may not be keen to practice with and times like this, right and probably give a little bit more forbearance to its debtors.

Harsh Shah: Power Grid is also a commercial body. They are also held accountable for any delay and we have seen extremely professional behavior from Power Grid to ensure that the collections are done. They are not working like a body that they can give forbearance because they must. They fight tooth and nail, and that is what we saw in this case as well in the order by Ministry of Power. Power Grid fought along with us saying we are not going to give any moratorium; we can only reduce late payments surcharge. So, I will say that they will maintain that.

Moderator: Thank you. The next question is from the line of Rushabh Sheth from Karma Capital. Please go ahead

Rushabh Sheth: I really cannot understand this diversification into solar power. I can understand that it is in adjacency and adds value hopefully over a long term to the investors. But to be very honest, there is a graveyard full of people who tried their hands at solar power and have not succeeded for various reasons. Considering that you are doing so well in transmission, it is a concern that you want to get into solar power right now when there is significant opportunity on the transmission side. Why to take a risk on something and in current uncertain environment. Had it been a pre-COVID environment, you could have still thought, then maybe you can put 5%, 10% of the capital. In a scenario which has become so fluid and risky on its own and then there are issues as the previous speakers were pointing out in terms of existing payments from Discoms and Power Grid, why do you want to get into another space which is completely different and has its own challenges? I can understand that you are going to take all precautionary steps in terms of the counterparty risk. I really cannot understand why the company at this juncture when there is so much uncertainty out there in the world wants to get into solar power.

Harsh Shah: Thanks a lot, Rushabh, you asked all the valid questions and I will try to address that from our side. As you rightly put it, most of the decisions that we take are long term. We are not getting into solar for 20% in next three months. It is an enabling resolution. We are seeing this COVID crisis as an opportunity, considering our financial sponsors and their ability to contribute more capital and where we are in terms of our leverage and balance sheet. I believe that when the rest of the market is substantially stressed, there will be few opportunities which will be available at a very attractive price. Beyond pricing, it is difficult to comment on anything else. Within solar, as you rightly put it, a lot of people have made large massive business plans which may not have worked out. Only difference that we are working on is that our choice of projects is limited to a few counterparties and operations. We are not getting into under-construction or fresh bids for solar growth. We are being very selective. I do not see any portfolio in the country which has been so selective in selecting the right set of counterparties, right set of operating risk and right set of capital structure at a consolidated level. This is an enabling resolution. We are not reaching 20% threshold tomorrow. We are evaluating and as and when we get opportunities, we will decide on acquisition. But all the points that you made are fair. We are looking at it as a long-term business, we are not making any decisions to necessarily grow aggressively tomorrow, but we are looking at this as an opportunity where a player like us with strong balance sheet, strong financials and strong access to capital and operations, will find good projects to acquire in this current market. So, the strategy is not to suddenly reach 25% and change the dynamics of the project in the business.

Rushabh Sheth: I understand and appreciate. All that I will say is that with the kind of uncertainty which we are seeing in environment right now, not just in India, but globally, I will urge the board and the operating management to tread with great caution. The problem with these projects is that it is a one-way ticket, you can get in, but you cannot get out of it very quickly. These are structurally long-term assets, so I will urge great caution when you make this decision.

Harsh Shah: Thank you, Rushabh and I take your message. We are a very cautious board, company and management team. And we will take note of all the points that you made. We will act with a tremendous caution. Yes, there is a crisis and we do not know where the world is heading probably, whether COVID is temporary or permanent, we do not know at the moment and therefore we are acting in abundant caution at this point.

Moderator: Thank you. The next question is from the line of Teva Modi from Ardico. Please go ahead.

Teva Modi: Firstly, I wanted to understand if there is any upside to the operating cost assumption that we take for the medium to long term?

Harsh Shah: Very interesting question and thank you for asking this question. Yes, we do expect, not in a year's time, but in three to five years' time. We expect savings on account of two things -- one, on account of technology involvement, a good chunk, about 25%, 30% of our overall O&M costs or rather actually more goes into services cost which is for monitoring. We are already evaluating several technologies which exist across the world. We are not saying we will do some path-breaking work in reducing supervision cost. It involves either robots on a conductor or a drone or a satellite imagery. We believe it will come to India. It may take slightly longer time. But over a three to five-year horizon, we see that we will be beating inflation and saving cost. However, we will have to evaluate and invest on that. We are doing it and Satish, our Chief Operating Officer is working with our engineering team deeply to see what kind of opportunities can be created in the medium-term.

Teva Modi: What will be the cost of equity and cost of debt for solar plants and what kind of project IRR will you expect over there?

Harsh Shah: I would not like to publicly state those numbers before we have acquired solar projects. I will say range could be 100 to 200 bps higher than what we do have in transmission projects. That is how we will look at to acquire higher return. But to give away the exact numbers is something which deals with our competitiveness in the marketplace, so we will avoid doing that right now.

Teva Modi: If you could just mention about some developers on the utility scale solar front and if you could clarify whether Sterlite power has any significant presence over there?

Harsh Shah: Again, I will refrain from naming developers in solar power. Sterlite Power at the moment does not own any solar project, neither I am aware of any plans to bid. So, this is not done for Sterlite Power solar power projects.

Moderator: Thank you. The next question is from the line of Divesh Shah, individual investor. Please go ahead.

Divesh Shah: I am in line with all my fellow shareholders who have shown a concern about our solar project and our company is in good hands. I feel that you are fearing that since you have given the justification of solar plant as 100 basis points better than our business of power transmission line. So, do you foresee after some future three or four years that your income from transmission line may be reducing and to compensate the Rs.12 DPU hence you are going for some risky assets to compensate the risk. Until now, as shareholders we were under impression it will be a pure power transmission business. But first time we hear that 20% to 25% will be solar power, and it may happen that after three or four years this 25% may go up to 40%. So, our concern as a minority shareholder is to preserve Rs.12 DPU. Our fear is that it in three, four years you think that power transmission income might be reduced.

Harsh Shah: To your first question, are we doing it to cover up something, that is not the right interpretation. From our perspective from our existing pipeline, in June 2019 we have given guidance that with our existing framework assets itself we can maintain Rs.12 for 10-years. So, this is not getting done to fill up the curve after third or four year. So, that is factually incorrect. Second point that you mentioned is, "Can it increase from 25 to 40%?" I will say no, because there are rating considerations, covenants which we are going to agree with rating agencies and abide by that. It will be publicly available as part of our strategy. You feel that transmission assets are very good, because three years back there was IndiGrid that was formed with a focus on only good customer base. I will urge you to believe us.

We are still focusing on the safest cash flows. NTPC cash flows and SECI cash flows are almost in line with Power Grid cash flows and they also carry a good long-term track record. So, we are not taking any additional risk on that account. I can give you comfort in the fact that AAA rating is most important for us and it is a hallmark of safety. If we have to do only 15% solar to maintain AAA, we will do only 15%. So, the percentage is less important. Our focus is to ensure that we remain a stable platform. Rating does add value and does justify how safe we are besides what we publish and disclose in our financial track record. Our focus is not shifting towards taking higher risk and changing the values of the platform. We are focused on delivering robust yield, growing that yield without becoming a risky platform.

Divesh Shah: I will put it in one word, it is the greed. We as a conservative shareholder feel that we should not take that path if possible. It seems we are moving to solar in a greed to get a higher DPU. What is wrong with power transmission? If you do not achieve the target of 30,000, suppose, you go to 20,000 or 25,000 and you maintain that Rs.12 instead of buying a risky asset. Some minority shareholders feel that it is greed on management side to go for solar because it has many problems compared to power transmission.

Harsh Shah: We as a management team, unlike a normal company, have a fiduciary role to ensure that unit holders interests are at the highest of importance and we take decisions based on that. Unlike a normal company, where there are promoters and the decisions are taken for promoters. There is no majority or minority over here, every investor is a financial investor and therefore, from our perspective as a management, there is no promoter for whom we are working. We are working as asset managers and our role is fiduciary and therefore, I do not think you should be worried about anything as minority investors, that there is something done in favor of majority investors. It is a platform where every investor that has similar right and return and no specific promoter tag over here. So, I will urge you to look from that perspective. You have been a long-term investor in IndiGrid, you have seen the worst of the times when the market did not understand transmission. I will request you to continue holding trust on that, we will remain conservative and ensure that you will not have any surprise over middle or longer term in terms of your return.

Divesh Shah: I am a long-term investor in IndiGrid, and I want to remain a long-term investor unless you take safer bets. So, please convey my concern over solar venture to the board.

Harsh Shah: We understand, we take your point, Divesh.

Moderator: Thank you. The next question is from the line of Atul Share from Pravin Ratilal. Please go ahead.

Atul Share: In your opening remarks, you mentioned that since you are in the essential services, there will not be a significant impact on lockdown. But if you can elaborate based on numbers like what kind of impact whether will be on the sales and the net profit margin? And my second question is the distribution the IndiGrid does in terms of dividend. If it is in terms of dividend, then why is it subject to TDS, I mean, is it not that interest is subject to TDS and not dividend?

Harsh Shah: To answer your first question, when I said that there is material impact on our operations, that is to cover that we operate in about 13 states and we needed approval to operate because we are an essential service. If there are any shutdowns or maintenance requirement, we must be able to correct it, and therefore, that point covers that we have approvals even in this lockdown for people to go and restore line. So, there is no risk on our availability because of lockdown. Since, there is no risk on our availability, our profitability remains intact because we are not losing any revenue. Hence, we do not have an impact on account of that. In any case now it does not matter because even dividend needs to have TDS, but we distribute most part of our income as interest and therefore there is TDS. If we issued dividend; based on the amount of dividend and the investor classification, there may or may not be TDS. So, if the dividends are higher, we may have to implement TDS on it. But now we are only paying as interest and therefore there is TDS for the individual investors.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Investments. Please go ahead.

Manjeet Buaria: I had one question related to solar. Just from the technology risk perspective which you mentioned some time back. let us say there is a certain level of technology where the solar power is today, and the technology costs have been going down over a period. So, how confident are we that we have kind of bottomed out? If there is a future aspect of these costs going down still further, the tariffs come off and in the merit order dispatch, our solar project gets pushed back more on batch. So, what is the risk where our technology becomes outdated and the newer ones get priority?

Harsh Shah: Correct. So, I will give you a high-level directional view. One of the key factors that we evaluate when we look at a solar project is to see that we are not acquiring projects where tariff is higher than APPC tariff of a particular state or a counterparty. That is important, because that says that we are remaining below the APPC price of a particular off taker, and therefore, we remain in an order of priority. As you rightly put, in future, there may be reduction in solar power costs and therefore, the incremental capacity may come cheaper. Will that put us behind the priority order? We do region-specific analysis when we enter this project. We run that analysis and comfort ourselves that there is less likelihood of that happening, only then we can pick up the project. You may have a contract which is independent of new projects that are coming at the new price. Therefore, you do have a significantly strong contract with a counterparty like SECI and NTPC that may not impact the incremental tariff. For example, while the incremental tariffs are at Rs. 2- 2.5 today, there have been projects which are at Rs.5 as well, and they are getting serviced well by the same counterparty. It is an important part, but it is not a material part which will change the return dynamics. In a long-term evaluation of a project, large part of the financial returns is made in the first 10-years. Beyond that, the NPV impact of the small changes will be relatively lower. Therefore, the next 10-years matters more. Unlike other projects or other technologies, solar has an ability to overhaul at a certain cost and a certain tariff and mechanisms. You can buy new modules which are at a cheaper price and replace the old one and get a productivity benefit. So, it requires the active asset management, but over a period of five to seven years, it is called re-farming. There is a possibility of attracting better yield than what you envisage to compensate any other issues. I will have addressed it at that level because beyond that it is project specific.

Manjeet Buaria: What are the project IRRs you think you can get because you are going after probably the best-in-class solar projects in the country today, so, is there a cut off project IRR??

Harsh Shah: As I mentioned in the earlier call, I do not like to mention any commercials without a deal. So, it will be a confidential number at this point, and it is not possible to disclose. Once we acquire, it will be publicly available and that can set a benchmark. But as I said, it could be more accretive than transmission projects.

Moderator: Ladies and gentlemen, due to the delay, the call was extended for 15-minutes. The time is over. I will now hand the conference over to Mr. Swarnim Maheshwari for closing comments.

Swarnim Maheshwari: Thank you so much, Harsh, for addressing the questions and thank you once again for giving us an opportunity to host. Will you have any closing comments over here?

Harsh Shah: Thank you, Swarnim. So, at the closing, I will reiterate that our business is robust. At least for now COVID is a temporary crisis. Our balance sheet is robust, business model is strong, and we believe there will not be any material impact on our business or balance sheet or cash flows. We continue to focus on our business strategy which is to acquire accretive acquisitions. We closed ENICL in March. We are looking to close GPTL in May. The last set of diversifications is a long-term strategy, which we are taking in an enabling resolution today. As we have said, we are cautious ourselves as management, as a board for our investors. We will be expanding and executing this strategy very carefully as we have done for the rest of the strategy of IndiGrid. We will pick up projects which makes sense for us without adding risk and add accretions to our investors for value creation. So, I will conclude from our side, Swarnim. Thank you for such a wide participation from our investors and asking the right questions, so, thanks very much.

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