"India Grid Trust"

Update Call

December 23, 2020

ANALYST: **MR. SUMIT KISHORE - AXIS CAPITAL LIMITED**

MANAGEMENT: **MR. HARSH SHAH - CEO & WHOLE TIME DIRECTOR – INDIA GRID TRUST**
MR. JYOTI KUMAR AGARWAL – CFO – INDIA GRID TRUST
MS. MEGHANA PANDIT – HEAD - M&A AND IR – INDIA GRID TRUST

Moderator: Ladies and gentlemen, good day and welcome to the update conference call with the management of India Grid Trust hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumit Kishore from Axis Capital Limited. Thank you and over to you Sir!

Sumit Kishore: Thank you Rituja. Good afternoon ladies and gentlemen. On behalf of Axis Capital, I am pleased to welcome you all for the India Grid Trust call to update and discuss recent acquisitions in transmission and solar sector. We have with us with us today Mr. Harsh Shah, CEO and Whole Time Director of India Grid Investment Managers Limited representing India Grid Trust on the call. He is accompanied by Mr. Jyoti Kumar Agarwal CFO and Ms. Meghana Pandit, Head, M&A and IR at India Grid Investment Managers Limited . We will begin with opening remarks from Harsh on strategy and subsequently on the deal, this will be followed by the Q&A session. With this I hand over the floor to Harsh. Over to you Sir!

Harsh Shah: Thank you everyone for joining the call today. To start with wishing you all a great year end and wishing a Happy New Year for the next year in advance. Today, we have gathered here to discuss a couple of updates on the business and the assets that we have recently acquired. We believe that it is something new that we have done and therefore it is essential to have a call and explain on how this will fit into our overall strategy.

To start with, I am on slide number four to reiterate our vision. Our vision is to become the most admired yield vehicle in Asia by keeping our focus on a focused business model, value accretive growth, predictable distribution and optimal capital structure. As you would have seen in most of our business decisions and actions, we have kept these principles in place and most our business strategies are based on these principles to ensure that they fit into our overall game plan.

The next slide is a quick snapshot about our size and scale today. We are approximately Rs 14,000 Crores in AUM as of September 2020 and we are present in 14 states and one UT in India. We own 28 lines and 9 substations of approximately 6,000 circuit kilometers and 11,000 MVA. We are rated AAA by all three rating agencies and the residual contract life is still 32 years. We own approximately 9,800 towers and having a sizable amount of metal in the portfolio.

As communicated earlier, our primary focus is to acquire operating projects with long-term contracts, low operating risks and stable cash flows. We believe both these acquisitions that we have done is fitting that criteria and both of them are new because neither are from our sponsors or not just a TBCB project and both of them are unique in own way.

I would invite Meghana who looks after M&A and capital raising for IndiGrid to brief on the slides detailing both acquisitions and subsequent to that we would go towards a Q&A session. Meghana over to you.

Meghana Pandit: Thanks Harsh and welcome everyone on this call. The first acquisition that we want to discuss is on page #7, which is Parbati Koldam Transmission Company Limited wherein we have signed definitive agreement for acquiring 74% stake. This project was awarded on a build own operate (BOO) basis by the Ministry of Power to a SPV which was a joint venture between Reliance Infra and PGCIL. PGCIL owns 26% in this SPV. A unique feature about this asset is that this is a section 62 asset which means that it was awarded on a cost-plus tariff mechanism and this will be the first asset that IndiGrid is acquiring which is of a cost-plus nature. It has been operational since November 2015. So a great operational track record is what we have seen. There are about 2 tariff generating elements in this project, spread across ~458 circuit kilometers. This project is a very critical project for evacuation of power from hydropower projects of Parbati II and Koldam, which connects with the downstream transmission network in Punjab. This being a build own operate project again, the contractual life of the project is about 35 years which is in line with most of our other project which have been awarded on a TBCB basis. Also, from a tariff perspective, it forms part of the point of connection mechanism wherein the central transmission utility which is PGCIL acts as a CTU and through a POC mechanism, the tariff gets distributed. I think as Harsh mentioned on the call this acquisition fits in very well with our stated strategy of looking at assets which provide long-term stable cash flows. This is a fixed return project as I mentioned since it was awarded on a cost-plus basis. A fixed ROE of 15.5% is provided through the tariff regulations by CERC for the period between FY19 and FY24. On the operational performance we have seen that all throughout there has been annual availability of more than 99.5%. The project has been constructed by Tier I suppliers of Kalpataru, KEC and the likes. Going on to slide #8 just a few acquisition details that we have provided. The SPA we executed in last week of November, the total enterprise value for this project works out to about Rs 900 Crores and it is subject to customary closing adjustments with respect to the cash balance, the net current assets, etc. The acquisition is also subject to customary regulatory approvals including PGCIL and existing project lenders which are currently underway. On completing the conditions, we are expecting that the transaction will get confirmed by Q4 FY21. We do not envisage any equity dilution due to acquisition of this project as we had raised about Rs 2,500 Crores last year through the preferential allotment - so those funds plus the available debt headroom and the internal accruals will be utilized for funding the acquisition of this project. Last table provides for the average line availability and the broad details of revenue and EBITDA for FY20.

Moving on slide #9, we had come out in April 20 and had taken unit holders approval for our diversification strategy, which was to enter into renewable sector by acquiring operational solar projects. So broadly slide #9 talks about how we are looking at this diversification strategy. The assets that IndiGrid would look at in the solar sector will comprise of assets which have long-term contracts, which have minimal counterparty risk. We will focus only on counterparties like SECI, NTPC, GUVNL which will again have some track record basis which we will be looking at acquiring them as well as again look at the quality of the project in terms of whether the Tier I equipment suppliers have been sourced on implementation of the project, how robust is the infrastructure, etc. With that focus and with that strategy in mind, we have gone ahead and acquired and entered into definitive agreements for acquiring about 100 megawatts capacity of 2 solar plants from an entity called FRV Fotowatio Renewable Ventures, this is a Spanish entity and has a track record of developing about 5 Gigawatts of solar projects across Europe, U.S., Middle East. This project consists of 50 megawatts plants in 2 SPVs and with the PPA they have an operational history of about 2-2.5 years. The tariff for the project is fixed at Rs 4.43 per unit with about 44 lakhs of VGF per megawatt. From a connectivity perspective, they are directly connected through a PGCIL substation that is about between 3 - 8 kilometers for P2 and P8. As I mentioned the assets were commissioned in July 2018 and have a track record of around two, two and a half years. The existing lenders to the SPVs are again reputed lenders of IFC, FMO and IREDA. As far as the equipment suppliers are concerned, the modules were provided by Trina and Longi which form part of the Tier I category, inverters are provided by Sun Group and the Turkey EPC contracts were done by Sterling & Wilson. One important feature to talk about this asset is the assets in FY20 have generated about 200 million units which basically means, that they have ended up saving about 1,60,000 tons of carbon dioxide emission which is equivalent to carbon dioxide absorbed by 76 lakhs trees.

Moving on to slide #11 on the acquisition details- the definitive agreements were executed just about a week back. This will be the 11th potential accretive acquisition after listing and after we acquire PKTCL also. Like for PKTCL - we are not envisaging any equity dilution for acquisition of this project and it will be funded through the preferential issue proceeds and the existing debt from internal accruals. For these solar projects the enterprise value comprises of Rs 660 Crores with zero cash and zero receivables. As I mentioned there is sufficient debt headroom which is available, which will be utilized. The last table on the slide provides the plant and the grid availability which are key metrics which we typically look at in solar . As you can see the plant and the grid availability have been very robust since COD - more than 99.5% in both the plants with the revenue and EBITDA being about Rs 97 Crores and Rs 86 Crores respectively.

Moving on to the next slide, slide #12. Broadly if you look after acquiring both these projects of PKTCL and FRV, we expect our AUM to increase by about 12% from existing Rs 14,000 Crores to Rs 15,500 Crores. The net debt to AUM which currently stands at around 54%, after acquisition of these projects will be about 58% leaving sufficient headroom for acquiring our framework assets of NER and KTL from Sterlite Power which we have already announced. The annual EBITDA for both these projects that we are estimating is close to about Rs 225 Crores and the estimated annual NDCF accretion on both these projects will be in the range of about Rs 40 - 50 Crores. If you look at the right-hand side map as you can see, we have a great geographical diversification with the existing 11 projects plus the addition of these projects will just add on to it across the northern region as well as with the solar assets in the southern region. With that, I think we will end the presentation and the submission from our side and I will request Mr. Sumit to open the discussion on the Q&A from the investors, please.

Sumit Kishore: Rituja can we please take the first question.

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

Mohit Kumar: First congratulations on completing and entering the agreement to acquire these assets. Two questions, first is on the tariff - I think that is Rs 4.43 per unit which is fixed for 25 years. Is there any dispute on the tariff with AP ? Are you being paid half of the amount ? and what is the receivables outstanding and is there any adjustment we need to pay over and above that once the judgment comes in? That is the first question.

Harsh Shah: The first question is pertaining to solar I believe on FRV side. So, while this plant is physically located in Andhra Pradesh, but this is a SECI contract -so our counterparty is SECI and therefore at this moment there is no litigation or any outstanding matter with Andhra Pradesh. So there is no issue or tariff withheld or reduction of any kind, there is no dispute. Our receivables are in the line of approximately 75 days which is as per market standard for SECI payments. Also SECI publishes the payment track record publicly for all GENCOs and one can check that and till now there has been a 100%t payment track record by SECI and without any delays. So while physically this plant is located in Andhra Pradesh the location is good because of irradiation, the contract is with the Central Sector Counter Party.

Mohit Kumar: Secondly what was the capital cost excluding VGF, what is the capital cost of this to setting up this power plant FRV.

Harsh Shah: Meghana do you want to answer that question?

Meghana Pandit: Yes. The project cost for both the plants put together was close to about Rs 650 odd Crores.

Mohit Kumar: How much?

Meghana Pandit: Rs 650 Crores.

Mohit Kumar: And on the Reliance Prabati Koldam Transmission asset - last time the acquisition agreement with another party failed. I do not know the exact reason. Is there some timeline when we expect this transaction to conclude and do you see any hurdles in completing this acquisition and what happened last time exactly why this fell through?

Harsh Shah: So, I mean, we cannot comment on somebody else..

Mohit Kumar: No, I understand that there was some procedural issue right that is the reason I am asking.

Harsh Shah: Yes, so procedurally what we can say is that this asset is a joint venture with Power Grid and till the 5 years from commissioning if any sale of this asset were to happen - Power Grid had the right to say no, okay, and therefore probably it did not happen because of that. This 5-year lock-in completed on 3rd November, 2020 and our agreement got signed after that. So in such scenario the SHA with Power Grid and the joint venture provided them right of first refusal, however they do not have right to say no. So that is the difference probably between the two timelines, I think that is what we believe could have happened.

Mohit Kumar: Understood. Thank you.

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

Sarvesh Gupta: Sir first question, if you can comment on the project and equity IRR for these two transactions for the stake that we have purchased for PKTCL and for the full asset on the FRV.

Harsh Shah: Sarvesh thank you for the question. For any new acquisition, we look at a different metrics and in this case also both these assets are of different nature. We will try to describe how one can look at it. Starting from PKTCL acquisition, which is unique because it is a cost-plus asset. Over here more than IRR we are looking at it as a dividend play and one can look at it as a dividend discounting model as well. This project has approximately Rs 275 Crores of equity which is regulated equity on which the project earns approximately 15.5%. There are obviously certain minor adjustments both up and down. One can take 15.5% as a regulated return on the equity base of Rs 275 Crores right, that is more or less fixed. So now if this is the dividend that is accruing to us as a project - this dividend is post tax, so we can actually take this amount and upstream to IndiGrid as a dividend payable and IndiGrid can provide to investors as a dividend received on which investors will not have to pay tax because the SPVs in the old tax regime. I would say this dividend is kind of a perpetual dividend that we receive out of these assets and therefore the right metric to look probably would be a dividend discounting or a dividend multiple method that can be there.

Sarvesh Gupta: And you acquired this at price to book of one?

Harsh Shah: No, we are not acquiring the price to book of one, we have acquired a price to book of approximately 1.5 times. We have a bit of leverage headroom that we can use and increase further. So there is some upside to current yields that can be created through leveraging as currently the project is underleveraged.

Sarvesh Gupta: And this will be tax free if you declare dividends on this?

Harsh Shah: Correct, now I am not commenting on complete tax -free nature because if somebody were to receive more than Rs.10 lakh of dividend probably it is taxable in their hands in whichever tax regime you are. But this SPV is in old tax regime so one can say in old tax regime the dividend will be tax free in the hands of investors.

Sarvesh Gupta: This is a bit different because this is tax free at 10.5% vs maybe 12%?

Harsh Shah: Again 10.5% is unlevered, so with just a 10%, 15% extra leverage more at SPV we increase it to substantially higher level. I would say that is the right way to look at it and in addition to that as you know this is not a acquisition which is necessarily requiring us to do capital raise so the entire amount is coming from the same equity base.

Sarvesh Gupta: So, you will pass this on as dividend not as interest?

Harsh Shah: Yes, that is correct. We have not yet acquired but that is correct directionally. The unique aspect of this asset is also that we will be able to pass through the dividend as dividend and not as interest.

Sarvesh Gupta: And if we just do 2/9, I mean 2 billion of EBITDA divided by 9 billion of enterprise that looks to be on the higher side, what am I missing here?

Harsh Shah: Sorry, what is 2/9 can you repeat it.

Sarvesh Gupta: That EBITDA of 2 billion divided by 9 billion.

Harsh Shah: Yes, an important question. I think we have given the 200 Crores EBITDA as a matter-of-fact representation. This also includes depreciation payment. In a cost plus project typically your depreciation payments are also paid as part of your EBITDA and therefore in the initial years we have a very high EBITDA and the later years you have a fixed dividend coming out of the project so which also provides us opportunity to actually optimize further for better IRR right. In addition to that this also includes onetime revenue of Rs 40 Crores which will be received in one-time revenue has booked on account of change in COD for the earlier 3 elements.

Sarvesh Gupta: Understood and can you just comment on FRV IRR as well?

Harsh Shah: Correct so FRV again IRR is a function of leverage and cost of that, everything put together but I can give you directionally; we have acquired at approximately 7.25 to 7.4 kind of EBITDA multiple and our cost of debt and our leverage would result into higher IRR even if we were to assume a reasonable leverage. So basically it is far more attractive because of the multiple, I think multiple is a better way to look at these assets so IRR would result into a substantial accretion from what we are right now, but I do to want to give a specific number, multiple is something which is easy to communicate in public.

Sarvesh Gupta: Yes, and Meghana commented that the project cost was almost equivalent to the enterprise value. So now this came in 4 years back and interest costs have substantially declined in the market so how are we able to get it at the similar enterprise value as the project cost four years back?

Harsh Shah: Very good question. See first of all we have been working on this asset for about a year and then our values were locked much earlier. So as per the contract we have locked in this asset very early on. Second as such we are not really linked to the capital cost of the project we are largely in terms of how do we value a particular project based on the ability to earn cash flow and as we have seen it in the past, we've acquired projects that are below Capex cost also and above Capex also so as such we do not really consider the Capex amount on account of if they made a higher cost or a lower cost right that is not our prerogative. How we have acquired I think that is something which is based on our competitiveness that we are able to provide, I would say swifter solution a better solution that is the way to look at it and again this project had a VGF etc., so overall cost etc., makes approximation slightly more complicated, to link directly that is cutting the cost on that way that is it.

Sarvesh Gupta: Since for solar assets the problem was the possibility of volatility in the cash flows as opposed to our usual stuff that we do so what has been the volatility in the last three years FY18 to FY20 for this asset, if you can comment on that volatility?

Harsh Shah: In terms of ?

Sarvesh Gupta: In terms of the cash flow that will accrue to you I mean for the solar assets the possible problem is there can be volatility as opposed to a fixed revenue which is independent of everything right in your usual business?

Harsh Shah: We have seen a steady two year of history on this project and this project has also several other hundreds of megawatts around in the solar power plant and we have seen that the grid availability has remained more than 99.8-99.9 so there are no issues and it is a very small line which is connecting to a large substation. Grid availability has not been an issue at all. Plant availability I think first 3.-4 months obviously there is a settling period but last 18 months have been phenomenally good. I would say not operational, not technical, and not collection I think none of the parameters we have seen any surprises of volatility in this plant.

Sarvesh Gupta: And my final question if I may, now these are like Rs 500 - 600 Crores assets that we are acquiring. I wanted to know now that we have built some sort of a platform what is the advantage that is coming to us as a platform as opposed to let us say a family office which wants to buy you know these assets at Rs 500 - 600 Crores because these are not very large amounts for Ultra HNI or even other firms to sort of try to buy especially when the yields are coming down across the globe. Are we getting some advantage now because of the platform, and if you can quantify it a bit?

Harsh Shah: Yes, so let's say you are a large HNI of Rs 500 Crores, would you buy a listed instrument which you can sell any day and have a tax advantage versus buying a physical asset which you need to run every day and figure out how you are going to run it. So, I mean, that is the first question that when the scale comes the benefit is that we are able to deploy the right kind of resources behind it right whether it is in terms of people or in terms of managerial or leadership bandwidth or in terms of technology right I am sure you would have read about recent partnerships with IBM that we did for our portfolio now that is a sizable Capex you could not have done that in a 1-3 portfolio asset size. So with scale the advantage come in terms of reliability of asset, predictability of asset because you are able to deploy right amount of technology and resources on that and the third one which is overall reduction of O&M cost because we are having the scale that is I would say called an operating synergy the next synergy exists for us on account of I would say financial synergy. We are AAA rated and I would say we are one of the few if not only triple A’s rated in the country with having a AAA rating and acquiring renewable energy asset right so we do have cost of fund advantage and the third one is the structural advantage we have framed as an InvIT and which allows us to extract all the cash and provide it to our investors which for some investors is preferred and therefore you know overall we are able to provide a better outcome because of these three parameters.

Sarvesh Gupta: Your NDCF accretion for the last four, five acquisitions that you have announced will be around Rs 100 Crores cumulatively Rs 40-50 Crores coming from these 2 assets so that is like Rs.1.5 per unit, what is the plan now is it more acquisition with this or increase of DPU how are you thinking about that?

Harsh Shah: Yes, Sarvesh I think it is a right question we are waiting for the year to end right and we need to take stock of what is the NDCF at the full year basis. In any case we have to distribute minimum 90% at both SPV and IndiGrid level. These acquisitions would happen in Q4FY21 so may not yield materially in this financial year right these numbers are annualized not quarterly. We will have to take a decision in Q4FY21 and the Board & Manager will decide what is the right set of DPU based on the NDCF and we will come with a plan in probably Q4FY21 meeting because you know we have just come out of COVID-19. I would say the first 2 quarters we are discussing about preserving cash, now suddenly there is a turn in the engine, markets have become far more liquid so we would like to just see the full year catch up before we increase the DPU if at all our NDCF becomes materially large we anyways have to do it.

Sarvesh Gupta: Yes, so that is the question the 90% of these annualized cash flow for all the assets that have been announced till now is that greater than 12?

Harsh Shah: Not now because these assets are going to come in Q4FY21

Sarvesh Gupta: No, annualized number next year.

Harsh Shah: Yes, so maybe next year there might be a compulsion to do that right.

Sarvesh Gupta: Understood, All the best Harsh. Thanks a lot.

Harsh Shah: Thank you. The next question is from the line of Abhilasha Satale from Dalal & Broacha. Please go ahead.

Abhilasha Satale: Sir, we have fixed the tariff at Rs 4.4 average either the tariff will move and that we think that tariff is below even that we think when this has that NTPCI that it is below Rs.2-3 so do you find any threat of the tariff going down in future or anything of that sort in this contract?

Harsh Shah: So Abhilasha, I think it is an important question we evaluate from a perspective when you are acquiring - is this materially higher than NTPC of the of the state or counterparty? In this case also we are not materially higher than ATP so I do not think we can evaluate contracts from or rather contract sanctity from incremental cost, right, because by that logic a lot of capacity in India would have become redundant, right. The way we see it is incremental cost of electricity of solar will come down, but on the other hand if you have a reasonable cost of power in that scenario, we suspect that these contracts would be renegotiated they are very fairly strong clear contracts and they have credible counterparties like SECI so we do not see that as a risk. Historically there have been such attempts by even Gujarat, a state like Gujarat with a tariff like Rs.15 and it has not succeeded right so we believe the regulator, the judiciary is fairly clear on this point and if a state asset with a state PPA of Rs.15 kind of tariff had to eventually pay and are still paying with a central counterparty with a Rs.4.5 we do not see it as a risk for the business.

Abhilasha Satale: And what is our current debt level and what will be the debt level after these acquisitions?

Harsh Shah: I think the debt level after this acquisition was there in the presentation approximately 58%.

Abhilasha Satale: Okay thank you.

Moderator: Thank you. The next question is from the line of Varun Agarwal from BOI AXA Mutual Fund. Please go ahead.

Varun Agarwal: My question is around the strategy of going forward increasing the share of renewable energy in our portfolio so what kind of impact it can have on the overall IRRs and dividend distribution and our overall asset profile?

Harsh Shah: Sorry can you repeat that question please?

Varun Agarwal: I will repeat my question. So I wanted to understand the overall strategy of increasing the renewable energy assets which is solar and other assets or generating assets in a portfolio so what kind of impact it can have going forward on our dividend payment IRRs and overall asset profile?

Harsh Shah: One can look at it from different angles whether it is from a risk perspective or return perspective, but I will try to address it on both. One is the solar assets which we are acquiring even central counterparty assets are going to be more accretive right so there will be higher returns so as I said we acquired it for 7- 7.5 of EBITDA multiple whereas transmission assets go at least 10%- 15% higher so about 8.5- - 9 kind of multiplies. There is a difference between in terms of accretion that happens. On the other hand, there is also slightly higher risk right because power there is a point of connection mechanism tool for transmission assets which has got a far longer track record versus what we are acquiring from SECI, NTPC that is relatively shorter track record we believe the contracts are equally strong however as a part of our strategy we do not follow a particular mix right that we want to be 20% renewable or we want to be X percent something etc. Our focus is to as I started with the presentation to find assets with long-term predictable cash flows right now . We have identified solar as an area maybe we may get good acquisition opportunity maybe we do not right. So there is not a set pattern that we need to follow and therefore I think we are neutral to a percentage however as a guidance we have been telling investors and our debt participants as well that at no point in time we are looking to cross solar assets of a portfolio of 20% - 25% so that is an outer cap does not mean we have to be at 20% - 25% it may be at 15% and still be happy so our focus is on managing the risk by selecting the good quality assets with good counterparty and ensuring that they are accretive right, after that the percentages is not something which is part of our business plans.

Varun Agarwal: One more question on the similar end in terms of the predictability a lot of these solar assets might have variability in terms of the availability of sunlight and other things do you think this 20% exposure will have too much impact on our cash flows considering till now most of our assets are more or less are predictable

Harsh Shah: Yes, I think the way to look at it is twofold. One is solar as a resource is not as unpredictable. Solar started in India on a commercial scale somewhere around 2007-2008 period right so in most of the solar generating stations or rather let us say regions there is more than a decade of solar data available so the solar generation or irradiation per se is not materially variable right so that is one point. Second point we are looking at just one asset but let us say if at all we are at 15% or 20% we are not looking to buy it in one area right so maybe you have 5% capacity in Andhra Pradesh, 5% capacity in Rajasthan maybe 10% capacity in Gujarat we do not know that what solar offers as an opportunity is a diversification, so you are not concentrated in a particular geography which will hit you hard if suddenly there is a higher rain in that year and you are kind of impacted so it is not a concentrated capacity it is a distributed capacity in relation to scale and therefore we do not get a material impact right on that account so solar that way gives diversification and the impact is lesser vis-à-vis transmission and I am not kind of saying the transmission is more risky, but kind of a concentrated impact right if our one line, if 10% of our portfolio is down for one month will have a far higher impact on our balance sheet and P&L then one solar plant having a little bit of less generation on account of higher rainfall. It is not really adding that much of risk on account of solar radiation, does that help?

Varun Agarwal: Yes, absolutely. So just one last question in terms of the payment pattern we do not see any issues in terms of solar assets and as we have already mentioned we are focusing more on SECI and or central government or when the assets which we are buying are more linked to where there is a predictability of cash flow there could be so that the cash flows itself are not delayed.

Harsh Shah: No, so, I think let us not club all solar generation into one bucket. We are buying solar assets with very select counterparty that means SECI and NTPC which exactly addresses the risk that you are trying to address.

Varun Agarwal: Understood, thanks a lot, that is it from my side.

Moderator: Thank you. The next question is from the line of Hansal Thacker from Lalkar Securities. Please go ahead.

Hansal Thacker: Congratulations on the last two acquisitions. Just one question, can you throw some light on the cost of debt on the last two acquisitions and on the portfolio in general?

Harsh Shah: Thanks, Hansal and this question keeps coming, it came in Q2 review also because the cost of debt in the market in general has come down materially and optically our cost of debt is at 8.5%. We believe in kind of conservative management so we have been fixing our cost of debt in the past and therefore a lot of instruments are fixed however approximately 40% of our balance sheet debt, approximately Rs 3,200 Crores(out of total gross borrowing of 8000 cr) we can either refinance or prepay or you know some kind of other structuring way we can do and we are working on that for example we raised recently just about a month back one non-convertible debenture at a cost of debt of 6.85% papq (Per annum payable quarterly) on a 3.5 year period which is about 7% annualized and today we have opened up another issue for the upcoming acquisitions which is at 7% - 7.2% papq which is approximately 7.25% - 7.4% annualized for 4.5 - 5 year maturity. I would say that transition is happening, the substantial reduction is happening - this is approximately 125 bps lower than our weighted average cost of debt. We are looking to refinance assets and as and when we do it will result in benefit on that account and this especially, the capital that we are raising now is going to go towards the acquisition that we are doing right now. So, for refinancing we will keep focusing on opportunistic tenure as well as facilities that allows us to reduce further.

Hansal Thacker: Great. So, as I understand the FRV acquisition was done on 100% debt, right?

Harsh Shah: Yes, FRV and PKTCL both are not done yet, they are yet to be closed right now; will be based on debt will be funding acquisitions.

Hansal Thacker: Brilliant so that is a really lucrative acquisition and some idea on the PLF on the FRV would you have that handy by any chance?

Harsh Shah: Yes, I think we can give you a little bit of past data. The generation is in the tune of approximately 20 Crores units so that comes to approximately 18% - 18.6% let us call it 18.5% CUF, but this is on a DC capacity. The DC capacity of the plant is 135 megawatts not 100. If you were to try to calculate the math it comes from 135 megawatts multiplied by 18.5% multiplied by 365 x 24 x 4.43 that is the calculation, yes, but if you need to consider DC capacity.

Hansal Thacker: And the Rs 4.43 you are mentioning is without the VGF?

Harsh Shah: Yes, VGF is actually a one-time payment that gets paid when a particular milestone is achieved and in this case some of the milestones are not yet achieved so they will be paid over the period of next 12 - 24 months as and when those milestones are achieved by the plant and part of this, we will have to share with FRV as an earnout however some part of it will also result into our accretion which is additional to what we are making right now.

Hansal Thacker: Keeping the VGF as a one time it would be safe to assume that the rate per unit will still be Rs 4.43?

Harsh Shah: Yes, Rs 4.43. VGF is annual payment which is one-time grant that gets paid. Not one time it comes in 4 tranches 50% on first year in COD and then 10% every year so in first 5 years VGF is get paid. So VGF is over and above this.

Hansal Thacker: Okay, brilliant, great. Thanks for the clarification congratulations and All the best.

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

Sunil Kothari: Harsh actually these two new acquisitions was really commendable. my question is just to understand up to now we were in transmission assets and now we are a little bit moving towards generation assets. which are the risk factors you will be keeping in mind?

Harsh Shah: Sunil Ji Thanks a lot, I think we have already signed the agreement so we can just describe what risk factors we have kept in mind and also in presentation it was there in the beginning what we are looking at. If you look at slide #9 of our presentation – first priority is buying a good asset and buying the good asset means that asset quality is good, constructed well, there are good Tier I equipments in place and therefore we have described some of the equipment name or manufacturers also because that makes a big difference in your productivity, in your generation, in your sustainability. Second part was on selection of counterparty like SECI, NTPC which ensures that they have an unblemished payment track record and therefore that would continue. Third is having the right capabilities in-house. The last we spoke about just about 10 months ago where we did not have anybody specifically for solar except our own past experiences, we now have Satish who is our Chief Operating Officer who has managed a large wind portfolio of GE in India. We also have Jyoti as a CFO who comes from JSW and who has not only managed the finance I would say solar and non-solar assets in generation as well we have Meghana who have acquired the projects from an acquisition point of view and we have a person with Satish who has joined as a Head of Solar O&M who has built a couple of gigawatts of solar portfolio and manage that. We have sufficient leadership capability and team capability to manage. I think that is the capability that we have built so pretty much this is what the risk is right you buy a good asset with a good counterparty and manage it well that focus will continue.

Sunil Kothari: And second point is, since the last 2-3 calls we are talking about restructuring debt so just which are the hiccups which is not allowing us to restructure, to just understand I am not saying that why we are not doing this?

Harsh Shah: No, Sunilji I think first just a correction it is not restructuring, restructuring is a completely different connotation from our perspective just refinancing.

Sunil Kothari: Yes refinance.

Harsh Shah: So, from a refinancing perspective there are no structural issues there are largely with respect to when you do a bond it is a fixed price bond then it trades in the market you cannot buy them out cheaper right so for example if we issue a bond at 8.5% in 2019 for Rs.100 it is trading at Rs.105 today or Rs.110. Now we cannot refinance that because that is a listed contract, we can only refinance loans our floating rate loans or something which is coming from maturity therefore we need to just maintain that calendar schedule in that as and when it comes our opportunity, we will refinance that is what we meant it is refinancing.

Sunil Kothari: In near future maybe another 6-9 months still you will have reasonably good chunk which we can refinance at this lower rate?

Harsh Shah: Yes, we have sizable amount of loans which we have ability to refinance.

Sunil Kothari: Great Sir, thanks a lot and wish you a very happy and healthy New Year. Thank you.

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

Mohit Kumar: Do you think we have a provision in the Parbati Koldam contract to buy?

Harsh Shah: Yes, Mohit the provision is there. If PowerGrid wants to sell and if we want to buy, we can, but that is not part of the plan right, it is a 26% shareholding so it is not material in size as well.

Mohit Kumar: Can we safely assume that, that the dividend will keep flowing to us and more likely the return will come in form of interest, am I correct?

Harsh Shah: Correct.

Mohit Kumar: Secondly, who will do the O&M right now for the FRV asset and it is just the VGF component that was pending will it come to us or it will go to the erstwhile owners and how much is the amount?

Harsh Shah: Yes, so there is a ratio we have agreed, exact numbers we have not disclosed so probably we will disclose on closing. A part of the VGF will accrue to us as well, in addition to that there is also a GST claim right so both GST payment and VGF part of it will accrue to us part of it will accrue to sellers so we will have an upside however the sellers need to deliver in a particular time frame right that if it comes in 12 months then you get X if it comes in 24 months you get Y right so that is the formula that we have put in place which incentivizes the seller to continue to work with us to get the claims as well as there is an upside prospect so it is a mix of both.

Mohit Kumar: If I may ask what is the kind of milestones is still pending because this power plant was commissioned in January, 2018 and 2019 effectively?

Harsh Shah: The land for this solar park to all the developers, including FRV, has been provided by the govt. For this this solar park there are patches of land, infact some land mutations pending on behalf of the govt. which is required by SECI to do the VGF payment. This is one milestone which is pending to receive the first tranche of VGF and we believe SECI has already given the waiver of land security for the first VGF so now it is procedural delay in payment. Obviously COVID-19 has slowed all of us down over the last 6-8 months. So now according to us it is procedural. On GST side there are certain clarifications pending with regulatory authorities for the part, the potential liability of that has been deducted in the price and the solar project is in the process of claiming the part from SECI. The GST payment will be one time and will be paid by SECI, so for both these things the material thresholds have been crossed and now it is a matter of procedure.

Mohit Kumar: And how much is the amount pending as of now?

Harsh Shah: Meghana would you have the exact number of total GST and total VGF, please?

Meghana Pandit: I do not have it offhand, Mohit let me get back to you later.

Mohit Kumar: The O&M partner is currently Sterling & Wilson, do we intend to do it ourselves going forward.

Harsh Shah: We intend to continue with Sterling & Wilson for O&M for now while we have all the managerial capability, we will have our own project manager on site, but O&M contract will continue as it is because they are doing a good job.

Mohit Kumar: And lastly on the funding of the FRV, I think there is a loan amount which is sitting from FMO, IFC and IREDA what is the proportion in which they have funded the loans and what is our plan going forward I think I believe that some of this amount is sitting as a bond?

Harsh Shah: Yes, from our perspective we are looking to refinance all of it and bonds have completed 3 years in the country so regulatory-wise there is no hurdle so we would be looking to buy out the bond and continue with that, it will be entirely refinanced from our perspective.

Mohit Kumar: From rupee loan am I right?

Harsh Shah: Yes, rupee loan or rupee bond, basically rupee debt.

Mohit Kumar: I think we can raise the money from bank also now right, so we are quite exploring all kind of options.

Harsh Shah: Yes.

Mohit Kumar: Okay thank you.

Moderator: Thank you. The next question is from the line of Khyati Mehta from TATA AIG. Please go ahead.

Khyati Mehta: I just wanted to have some color on the disclosure you made yesterday regards SPPL becoming one of the sponsors?

Harsh Shah: Sorry can you repeat the question your question was regarding the merger of SPPL and SPGVL?

Khyati Mehta: Yes, and then becoming a sponsor of IndiGrid.

Harsh Shah: So now this is just the corporate action that has taken place SPGVL, 100% subsidiary of SPPL was the sponsor of IndiGrid when it was formed. However, Sterlite SPPL and SPGVL have been merged now and therefore SPGVL cease to exist and therefore the resultant company SPPL becomes the sponsor by virtue of merger so this is just an intimation, factual intimation on account of that, does that answer your question?

Khyati Mehta: Is it a co-sponsor because I think KKR is appointed as a sponsor?

Harsh Shah: Yes, so that continues so this is just a legal entity changing from Sterlite side nothing else have changed.

Khyati Mehta: The holding of SPPL in IndiGrid would see how much as of now

Harsh Shah: Approximately 0.3%.

Khyati Mehta: Okay Sir. Thanks for answering my question.

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

Sarvesh Gupta: Sir just one question for H2FY21 as well as for FY22 what is the extent of refinance that we can do and what will be the average basis point reduction in interest cost on account of that?

Harsh Shah: That is a question which you need to derive answer to from our balance sheet. So on our balance sheet we have one Rs 435 Crores of bond which is getting refinanced in February 2021, which is getting mature so we can refinance that. Other than that, we have a lot of project level loans right, we have project level loan in GPTL, project level loan in ENICL project level loan in OGPTL, these three put together would come to approximately Rs 2,500 – 2,600 Crores. We will need to refer to the Q2FY21 presentation and that has 3 bank loans plus the bank loan at InvIT level so put together approximately Rs 3,000 – 3,500 Crores, Rs 3,000 Crores of debt which is at either SPV or at a IndiGrid level we can potentially look to refinance.

Sarvesh Gupta: And at around 100-150 basis point reduction on an average?

Harsh Shah: That is something which even I would not know, as and when we do it, we will come to know actually, I can give you the exact public numbers which we have raised that we are raising the debt now but I think the future one depends on when we are refinancing that can be up that can be down so that is something we will have to wait for when we refinance right it can improve as well it can worsen right so we do not want to give you an upfront commitment on that.

Sarvesh Gupta: What is the ballpark cost of debt on this Rs 3,000 Crores?

Harsh Shah: Ballpark cost of debt I think we will need to calculate to be honest but it will be upwards of 8% that I can tell you is 8.25% - 8.5% average.

Sarvesh Gupta: And are you also planning to now remove Sterlite as a sponsor now that their shareholding is so low and there is anyways KKR is the sponsor. Is there a procedure to remove the existing sponsor of the company?

Harsh Shah: No, factually speaking there is a procedure to remove - by a simple vote of unit holders in IndiGrid we can remove; provision is there, however, the manager board has not made any such decision or plan in place so it would be premature.

Sarvesh Gupta: Understood thank you all the best and wish you and the team a very happy New Year. Thank you.

Moderator: Thank you. The next question is from the line of Sunil Shah from Turtle Star Portfolio Managers. Please go ahead.

Sunil Shah: Congratulations Harsh and the entire team of IndiGrid on this acquisition. Sir I have just one question which is I think in this acquisition we are saying that our NDCF is going to be in the range of Rs 40 - 50 Crores and I think in the course of the presentation you mentioned that a part of it will be distributed as dividend, could you give us some sense on how much could that be and how will that go about?

Harsh Shah: So see we can give an approximate way to compute that because we have not yet acquired so it is difficult to predict from that perspective but let us say as we said you know approximately Rs 275 Crores of equity, so this asset would throw anywhere from Rs 42 - 48 Crores of dividend per year on a 100% basis considering the ROE and 15.5% cost of debt and we only own 74% of this so we get approximately say Rs 30- 32 Crores of dividend from this asset and divide that by number of units which would come to about what half a rupee somewhere around that is 50 or 60 paisa or something. Now at the higher level that is what the math is, we will need to figure out accounting and how that gets structured and all that eventually, but on the long-term basis there is about Rs 33 Crores of dividend or on a Rs 58.5 Crores of unit holder base so that is ratio one can look at.

Sunil Shah: Does it mean that the solar assets that in future if we acquire there could be a window through which this kind of dividends could accrue in future as well depending on the structure? but in transmission lines clearly it says it is not a dividend payout that you can give but in solar assets that possibility remains?

Harsh Shah: No, you mixed the two assets the dividend that we spoke about is the PKTCL which is a transmission asset but a cost-plus transmission asset so you get a post-tax return. For solar it will be interest it has nothing to do with the sector it has to do with the capital structuring for that asset.

Sunil Shah: Got it. Then one more point which is actually there were some new discussions going around about going forward in future government is contemplating some policy wherein if the distribution company is not able to deliver the power there will be a penalty which will be levied does that anyway create any kind of business risk for us?

Harsh Shah: No so first is that is for the distribution licensing we are a transmission licensee. It does not imply on us directly. Indirectly it implies on our customers which is distribution companies so see all these structural measures that you keep hearing about is towards overall improving the sector efficiency so while it may look like penalty is there but eventually the government is only providing liquidity also to meet that penalty right on the other hand so the idea is to create an infrastructure and environment that distribution companies become more efficient, so that the overall sector becomes more efficient. In the long run I think these will result into rather positive environment for the sector than the negative and in the short term any ways we do not get directly impacted.

Sunil Shah: And one last question and this is we are talking about assets that we have acquired, but if I can get an update on the two framework assets which are in the pipeline that is in NER and KTL could you just update us in terms of what is the status, by when do we think that those could materialize if you can share?

Harsh Shah: Yes, sure, NER project is under construction and I think it is at the last stages of construction there will be obviously a force majeure on account of COVID-19 and all other aspects so there is 5-6 months delay on that project. We believe at least what we have been informed is that the project will be commissioned by March,2021 and therefore we have in parallel started due diligence for that, exact acquisition date we do not know, but maybe Q4FY21 or next 6-9 months will look to close this acquisition as and when the project gets commissioned. It looks at least what we have been informed is that you know the project is a good stage and then we should be able to look at it in 6 months time and that is one factor. On KTL it is substantially delayed one part of it so 50% of KTL is commissioned and it is revenue generating however the other 50% is substantially delayed so probably 12 - 14 months maybe for that so it will be slightly delayed than earlier plan.

Sunil Shah: By Q4FY22 we expect that we could get good clarity for both of them?

Harsh Shah: Q4FY22 so that will be 15 months from now, yes…

Sunil Shah: So, we should be done by then right?

Harsh Shah: Yes, correct 15 months is a good

Sunil Shah: Alright. Thanks for all this clarification and good to hear Meghana on the call as well. Thank you so much.

Moderator: Thank you. Ladies and gentlemen as this were the last question for today. I now like to hand the conference over to Mr. Sumit Kishore. Thank you and over to you Sir.

Sumit Kishore: Thank you Harsh, Meghana and JP. On behalf of Axis Capital Thanks, a lot for giving us the opportunity to host this call. Would you have any closing remarks. Please

Harsh Shah: I think, I mean, we have been just on our track of delivering our strategy this is a stable business with predictable returns and now IndiGrid has good access to both capital as well as management team and asset base and therefore we are in a very good position to execute a strategy which was focused on you know long-term contracts, low operating risk, stable cash flows which is what we are executing. I would reiterate, I think a year before there were a lot of questions around solar I would reiterate that our focus is to go conservative than aggressive and therefore we have provided outer caps of 20% - 25%, however we do not necessarily are running to achieve those caps we may be operating at a much lower level we are looking to acquire, monitor and generate the yield before we jump on to growing materially and especially a new sector and it took us I would say about a year or 14 months from starting to think about it, to evaluate, put together, risk framework, build capability and finally execute. We will just remain conservative and focused on you know the fundamental of the business which is to get predictable stable cash flows and generate yield for investors and I think a lot of you have been tracking us since the beginning and thanks a lot for all the right questions which nuances on the business which allows you to evaluate the business better. So thanks a lot for participation and wishing you all a Merry Christmas and a Happy New Year.

Moderator: Thank you. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.