



“IndiGrid Trust Limited
Q1 FY2019 Earnings Conference Call”

July 26, 2018



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*India Grid Trust Limited
July 26, 2018*

Moderator: Ladies and gentlemen, good day and welcome to the IndiGrid Trust Q1 FY2019 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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 from Edelweiss Securities. Thank you and over to you, Sir!

Swarnim Maheshwari: Thank you. Hello and good evening everyone. On behalf of Edelweiss Securities, I welcome you all to discuss IndiGrid Trust Q1 FY2019 results. From the management, we have with us Mr. Pratik Agarwal, CEO and Mr. Harsh Shah, CFO of Sterlite Investment Managers for representing IndiGrid Trust on the call. I would like to hand over the call to Mr. Pratik for his opening remarks post which we will have a Q&A session. Thank you and over to you Sir!

Pratik Agarwal: Thank you Swarnim. Thank you everyone for joining the call today. This is our fifth quarterly analyst and investor call and we are very proud and happy to report yet another strong quarter on the back of predictable and consistent performance.

I will just give you a quick run through once again of our business, our assets and our vision and then I will hand over to Harsh Shah who is as you might know the incoming Chief Executive Officer of Sterlite Investment Managers Limited and we also have in the room today Aditya Mehra who is the Head of M&A and Investor Relations.

As you know IndiGrid was the second InvIT in India and the first in the power sector. It is India’s only power transmission yield platform, which is in the business of owning interstate high voltage power transmission assets, which are operating assets with no greenfield risk and no traffic risk. These assets deliver stable, predictable and sustainable distribution to unit holders. IndiGrid will grow its distribution through value accretive acquisitions from the strong pipeline that it has from sponsor assets as well as third party acquisitions.

As we stand today IndiGrid has an asset under management of about Rs.5200 Crores over five project SPVs as we can see on slide number five. About 3300 circuit kilometers of line, 6000 MVA of transformation capacity over 13 lines and 2 substations, it has AAA rated status across its SPVs and the trust and it has unique feature amongst all infrastructure asset classes in India, which is perceptual ownership. There is no transfer clause and these assets will remain with IndiGrid in perpetuity as compared to all of other asset classes. Our current assets have about 33 years of residual life and of course then our tail period beyond that for future use.

Moving to page 6, IndiGrid has a bold vision of being the most admired yield vehicle in Asia. We plan to do this through a strong focus on delivery, transparency and governance. In terms of numbers, we aim to have assets under management of about INR 300 billion, which is Rs. 30,000 Crores in the next four years, this will take us to about \$4-\$4.5 billion of assets under management and will put us in the league of all the major global yield players and yield investors in the world. We plan to deliver on our guidance of distribution per unit each quarter and we plan to deliver on a growth year-on-year and finally we believe in best in class corporate governance when it comes to management and operation of this platform.

On page 7 we have the basic fundamental pillars of our proposition to investors. Our portfolio including our ROFO assets from our sponsor allow us to grow the portfolio to three times of the current size and we expect to achieve an IRR of about 12% based on Rs.100 issue price by the time we are able to drop all our current ROFO assets. The business model is highly stable based on availability base cash flows where we get our entire tariff based on asset availability which has no correlation with the power flow in the asset.

Our counterparty is very strong. We collect our tariff through PowerGrid, which is the collection agent and manages a pool of tariffs across the country. The cash flows are annuity-like and a very long-term in nature. As I mentioned we get 35 years' concession life. They are AAA rated and as I mentioned we are looking for a 12% portfolio IRR in the near-term.

The power transmission industry has always been a favorite amongst infrastructure, asset owners and investors. It enjoys structural stability and structural growth especially in emerging markets. India always had a bold vision for its power sector and in the current government the vision only gets bolder. The plan is to have power to every household by 2022 and about 250-gigawatts of renewable energy. This entire plan calls for a transmission vision or transmission expenditure of anywhere from \$40 to \$60 billion.

India is the largest investor on electric vehicles in the developing world after China. This will only take up the electricity demand further and will have a further impact in demand and transmission lines. We are expecting the next five years to have tremendous growth in terms of new projects being bid out. We believe IndiGrid will be the best platform to consolidate these assets and grow not only its assets, its portfolio, but also the return for investor.

Our sponsor already has a strong 30% market share of all projects that have been awarded so far and it has the best track record of executing project. The most number of projects in the country in the TBCB model, which places it very well to continue to benefit from this outlook for the sector. The sponsor has 7 assets available at the moment for further dropping in and as mentioned these assets alone can grow the AUM of IndiGrid by three times and beyond this IndiGrid has shown the capability to acquire third party assets. We have announced &

signed definitive agreements for the first asset and we believe that there will be a continuous consolidation in the sector and IndiGrid will continue to look for value creative opportunities in the transmission space.

IndiGrid has a robust corporate governance framework regulated by SEBI in the form of an independent trustee, independent and highly experienced board which have experience of running such instruments globally. IndiGrid has a strong management team, which has probably unparalleled experience of not only running operating transmission assets, but also managing yield vehicles in India.

With this I now hand over to Harsh to take you through some of the details of Q1 and then we will open up for questions. Thank you.

Harsh Shah:

Thank you Pratik. This is Harsh. We are on the highlights of Q1 FY2019. We had another strong quarter with a strong financial and operating performance this quarter. Our EBITDA was up by 10% to Rs. 1.45 billion primarily on the back of the acquisitions we made in the last quarter. We received CERC order for one of our projects - BDTCL, which will result in the tariff increase of about 0.69%, which will be accretive to us.

As per guidance we are going ahead with a distribution of Rs. 3 per unit this quarter, this will be paid entirely as interest to unit holders. After paying this we are also reaffirming our FY2019 DPU guidance at Rs.12, which is Rs.3 per quarter for next three quarters. We are on track to complete the previously announced third party acquisition of Patran Asset, which Pratik just described and we have received regulatory approval for the same. We are very well positioned to capitalize on the strong growth fundamental, Pratik described about the sector and the tailwinds, which allows us to look at more opportunities in the sector to grow.

On page number 10, is our financial performance snapshot. As you can see, we have consistently grown our revenue as well as EBITDA with respect to the operating performance as well as acquisition of assets. Over last four quarters the total distributed amount is Rs.11.64 per unit, which is substantially higher than what we guided at the time of IPO and we could achieve this by acquiring the first set of acquisitions much ahead of the schedule.

On slide 11, is the EBITDA to distribution bridge with Rs.1.458 billion of EBITDA, we had an interest on external debt of Rs. 329 million. We repaid the debt of Rs. 156 million; there was a working capital change of Rs. 176 million which led to about Rs. 797 million NDCF at the SPV level. Our interest at the IndiGrid level on loan was Rs. 206 million and we used up about Rs. 260 million cash from balance to meet the NDCF at Rs. 851 million and we are distributing that entire amount this quarter, which translates to Rs.3 per share distribution.

Coming to slide 12, which show our operating performance. We have presented our historical availability on the chart on the left hand side, which is yearly and asset by asset, as you can see from FY2016 to 2018, every single asset has delivered maximum incentive by maintaining much higher availability than stipulated.

The Q1 availability is also pretty much in line with that and we are confident that we will achieve 100% incentive by the end of this financial year. Slide 13 describes the debt profile with which we have financed our portfolio. We have maintained AAA rating by all the three top rating agencies in India. Our net debt to AUM ratio is 44% at the quarter end. We have used diversified sources of funding- varying from a bond to a bank loan to an ECB, which is fully hedged and fixed our interest rates and achieved the weighted average cost of borrowing at 8.3%.

With all these and the different instruments altogether we have weighted average maturity of our borrowing at approximately eight years and we continuously evaluate cheaper and longer dated options to ensure that we diversify the funding and look for increasing the average maturity of portfolio.

On the next section, which is primarily going beyond this quarter, we have communicated our growth strategy. These are the seven assets from the sponsor, depicted with size as well as potential date of completion of these assets and as Pratik mentioned, as we look to grow we would continue to look at these assets as well as third party assets for achieving our goal for growth and achieving 12% IRR.

On slide 16 we are showing how we have grown the portfolio since IPO till now. As of now we have reached IRR of approximately 10% after acquiring the third party asset and there is a clearly structured roadmap for us to acquire subsequent ROFO assets to ensure that we achieve 12% portfolio IRR from sponsor assets.

On slide 17, the depiction is in terms of DPU or how would it grow with each sets of acquisition and over a period of time. It also showcases the need to acquire third party assets to grow the AUM beyond the ROFO assets at different point in time. This remains as indicative DPU; however, the curve depicts the growth of the distribution per unit over a period of 20 years.

With this I would like to close from our side and I request Pratik for some closing remarks and after that we can move towards the question and answer regarding the quarter and the business.

Pratik Agarwal:

Thank you Harsh. Friends once again thank you for joining. We at IndiGrid are committed towards delivering on all promises we made and surpassing those. I think it has been just over a year since the IPO. We have been able to beat our guidance on distribution. We have been

able to prepone our growth and have also completed one third party acquisition, which is a sign of things to come in the future. We remain very confident and upbeat about not only IndiGrid, but also in general about InvIT as a product. We believe that the country will be using this product more effectively, not only to help private companies raise capital, but also for government assets to be monetized and to reduce the fiscal deficit of the government, so we believe that this product is here to stay. It is going to do well. We expect issuances this year and we at IndiGrid are focused on our own operations & strategy. We will continue to remain in close touch with you and provide information from time-to-time. Thank you very much and I will hand back to Swarnim for taking questions.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. There is a first question from the line of Apurv Bahadur from ICICI Securities. Please go ahead.

Apurv Bahadur: Thanks Sir for the opportunity. Sir in your results the finance income of the InvIT has declined from 74 million in Q1 2018 to 18 million Y-O-Y despite increase in asset base. Can you help us to understand why this has happened?

Harsh Shah: The finance income is a very small part of our treasury income based on the cash balance maintained during that quarter and it is directly in proportion of that. In the quarter, which you are referring to, we had relatively higher cash balance versus this quarter.

Apurv Bahadur: Secondly on this increase in BDTCL tariff, so that is due to a change in tax rate, so will that be applicable to other assets as well?

Harsh Shah: A transmission service agreement for each SPV provides for the provision for change in law and force majeure clauses. It only applies to asset if those changes happen during the period of construction. This is to offset the hardship the sponsor went through during building of the project and therefore 80% of the amount of the cost accrued would be shared with the project manager in form of units and 20% of the gain post dilution will accrue to the IndiGrid.

Apurv Bahadur: Fine Sir. Lastly I see the legal and professional fee has also increased significantly, so while I know that it is not comparable YOY, what should be a sustainable level for this fee?

Harsh Shah: As we look for new assets and acquisition of new assets, we spend on diligence of new assets to acquire and therefore in the quarter in which we have acquisitions, it may show up as a legal and professional fee. Other than that, there is no material amount that we spend on separate legal advice.

Apurv Bahadur: Okay, got it, if I may squeeze in one more, this is regarding the transfer of cash from SPV 260 million. What amount of cash would now be left with the SPVs and will this be a strategy to smoothen the DPU curve?

Harsh Shah: To answer first question there was still be 60 Crores cash left post this quarter's distribution. To answer the second question, there is a seasonality on cash flow like most of the assets in India, the Q4 is better in cash collection and there are lot of efforts made to collect more cash, by that virtue Q1 remains slightly weak. To ensure that distributions do not get impacted by such variability between Q4 and Q1, we maintain some amount of cash reserve, which allows us to smoothen the curve.

Apurv Bahadur: Perfect Sir. Thanks a lot.

Moderator: Thank you. Next question is from Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Good evening Sir. How are you going to maintain DPU of Rs.12 for the entire FY2019 from starting on the EBITDA?

Harsh Shah: Thank you Mohit. Good evening. This is Harsh here. We have not provided specific quarter-on-quarter guidance and projection in our results as well as the other documents; however, having said so; when we provided the guidance at the beginning of the year we clearly calculated that from five assets and the 3rd party acquisition we would earn sufficient cash to meet Rs.12 distributions per unit for this entire financial year.

Mohit Kumar: So tariff pass through only because we have a cash reserve at Rs.60 Crores am I right?

Pratik Agarwal: Not necessarily, we may not be using the entire cash reserves of Rs.60 Crores in this financial year. The cash reserve of Rs.60 Crores was built based on the one-time income which we received last year. Being the first year of InvIT, we had given a projection beyond FY2019 of our ability to maintain Rs.12. We would not be using the cash reserves in entirety to meet Rs.12 distributions for this year.

Mohit Kumar: Have you issued extra units to the sponsor for compensatory tariff received for JTCL?

Harsh Shah: Yes, we received compensation tariff increase for JTCL last year, for which we issued 80% of the amount to the sponsor at Rs.100 and not at the current market price. For BDTCL, on June 30 we just received the order stating approximately Rs.19 Crores of cost increase approved. As of now we have not issued the units to the sponsor because there are procedures to be followed after this order, and once we conclude those procedures we would be issuing 80% of that unit. In addition to that the order also provides for another Rs.80 Crores of claim to be

made by BDTCL. 20% of whatever gets approved of that additional units will accrue to IndiGrid.

- Mohit Kumar:** Have we arrived at the quantum of compensation possible from this particular asset?
- Harsh Shah:** The CERC order is already public, it is approximately Rs.19 Crores, which is approved as a cost increase. As per the formula signed with the project manager, 80% of this amount is to be issued as units.
- Mohit Kumar:** Why was there a delay in the acquisition of this third party asset, when is it likely to be concluded and how is it going to be funded?
- Pratik Agarwal:** There is no delay in the acquisition of the third party assets. As you would know, we need some regulatory approvals to conclude the transaction which were recently received. In terms of financing we are at only 44% debt to AUM, we would be financing this through a loan and still remain within 49% of debt limit.
- Mohit Kumar:** When do you expect it to conclude?
- Pratik Agarwal:** We are targeting to conclude in Q2.
- Mohit Kumar:** Sir my last question is about Rs.62 Crores repayment, which is due in FY2019. Is there any plan to reschedule this repayment or fund it by longer tenure of loan or something?
- Harsh Shah:** The FY2019 repayment is only Rs.62 Crores, which is a scheduled repayment, so the guidance that we gave on distribution is after repaying that and therefore we are not really looking at refinancing that at this point in time. The next set of refinancing we may do in FY2020-2023 and we do not need any refinancing till then to meet our distribution guidance.
- Mohit Kumar:** Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from Keyur Asher from Reliance Nippon Life Insurance. Please go ahead.
- Keyur Asher:** Thank you. Sir I had a question regarding the cost of the asset that which we are going to acquire in the next quarter, PTCL?
- Harsh Shah:** Yes, approximately Rs.225 Crores is the cost.
- Keyur Asher:** We plan to fund it by loan, right?

- Harsh Shah:** That is correct.
- Keyur Asher:** Sir, would it be right to understand that the debt equity mix in future assets which we are planning to acquire from the sponsor will be around 50%?
- Harsh Shah:** That depends on the case-by-case basis, whether it is sponsor or non-sponsor assets. In general, we would like to raise capital as we look for targeting larger assets. Having said so we need not maintain 49-51% on every asset. Depending on the capital markets be debt or equity at any point in time, we would look to optimize both the source of funding as well as cost of funding. On a short to mid term level we are bound to maintain 49-51% by SEBI regulations, but that does not mean we will do the transaction exactly in the same proportion every time.
- Keyur Asher:** Sir I see on slide 16 that there are two more assets apart from PGCIL that are scheduled for this fiscal year, what would be the total cost for those two assets?
- Harsh Shah:** I would just clarify first it is not for FY2019 fiscal, it is an indicative guidance between FY2019 and FY2020. Our original guidance was to acquire the first three assets in FY2019 which we have preponed to FY2018 itself. Having said so, these two are the target assets to be acquired and we have not disclosed the cost of building those asset to the wider investor base, so that is not appropriate to share at this point in time. As we acquire these assets we will share the detailed valuation reports of the same by independent valuer and make it available to all the investors before it comes to voting.
- Keyur Asher:** Thank you Sir that was helpful
- Moderator:** Thank you. The next question is from Mayank Sethi who is an Individual Investor. Please go ahead.
- Mayank Sethi:** My question is on further draw down and raising further equity from the market. Since the current price of the unit is below the face value of 100, is there any understanding that additional units would be issued at the market price or at the face value of 100?
- Harsh Shah:** Thank you Mr. Sethi. This is Harsh here. SEBI has already issued the guidelines about any more capital raised by InvIT. The floor price, as prescribed by SEBI, is the average of last two weeks of current market price, for any new investor to participate in a new fund raise. We are not sure we can commit any price as of now other than committing to the SEBI regulations. Having said so I would emphasize that for the existing investors of India Grid Trust, the transaction would be value accretive and therefore at any point in time, if the investors were earning X post dilution and acquisition, investor will earn X+ something more. Therefore the

price at which the next issuance happens would not materially matter as long as the transaction post acquisition is value accretive.

Mayank Sethi: I understand Sir, so the DPU of Rs.12 and DPU growth of 4% per year would be maintained in the case of additional issuance of equity?

Harsh Shah: Yes, we are working towards both the DPU as well as IRR growth and for any acquisition we evaluate the assets for both DPU as well as IRR accretion. Depending on case by case we would make that decision and come back to investors for feedback and take those decisions at that point in time, but certainly it will be IRR accretive post dilution.

Mayank Sethi: Referring to slide number 17 on the presentation, it indicates that DPU is falling post 2025, what could be the reason for that?

Pratik Agarwal: The way the transmission assets are bid out is that the SPV has tariff order lasting over 35 years and those numbers are hard coded and fixed as a tariff number in the agreements. The light blue and the dark blue curve reflect to some extent the tariff curve of the initial portfolio assets, as we acquire more assets the curve becomes flatter and the drop gets pushed back. That is one of the reason that we have a distribution of Rs.12 and IRR of 10%, because beyond few years, the distribution per unit is dropping and on every acquisition we evaluate to increase the IRR and bring it closer to the DPU. There is no operating cost or any other metric resulting in a reduction of DPU, it is just that the tariff curves are provided in that manner.

Mayank Sethi: Okay, so post 2020-2025, the DPU of approximately Rs.12 or higher is expected to be maintained?

Pratik Agarwal: Your point is right, if you look at year 2020-2025 also there are different assets, which we are acquiring across injection one, injection two, injection three and if you look at all the assets altogether the DPU is not dropping. On top of it, if you look at orange line which clearly lays down that we target third party assets as well as future sponsor assets to ensure the DPU does not go below that.

Mayank Sethi: I understand Sir, I also wanted to refer to our annual report. On page 155, there is a sensitivity analysis and sensitivity of NAV to the weighted average cost of capital is quite high, it is around 8% to 10%, so since our repayments are falling due in 2022 and 2028, how is the company going to manage the risk? For example, in case the cost of debt is higher and if the company is not able to fund the existing loan at the old rate, then would NAV have a negative impact or is there any way investors can think of managing this risk?

Harsh Shah: It is a very good question. I just answered this, this is about four years away now and if you look at about Rs.700 Crores to be refinanced in FY2023, that is approximately 1.25 times of our EBITDA. In relation to our EBITDA size in total balance sheet of fairly small number, we continue to be rated AAA, and at a AAA rating we are confident that we will achieve the lowest cost of financing possible at that point in time. We do not see liquidity being a challenge. As you rightly mentioned, if the interest rates are substantially higher at that point in time it may have an impact on the distribution.

Pratik Agarwal: Just to add, we always have the option of taking extremely long-term financing, but that comes with its own cost, so I think the most prudent thing that we do is balance our tenures. I think it is only a black swan event that you refer to that can really affect us. Given what Harsh mentioned, the credit rating of the asset as well as the time as well as the size we feel comfortable with this risk.

Mayank Sethi: I understand, Sir in case the WACC moves up then only DPU will face adverse impact or even the NAV will fall? I am assuming if both happen simultaneously the market price of the units will also fall, is my understanding correct or different?

Harsh Shah: We cannot comment directly on the market size. NAV is a formula of calculating future value or future cash flow using a WACC. Mathematically if WACC goes up because the risk rate has gone up in the country, certainly NAV will come down. We are talking about a five-year event and for us IndiGrid is a platform, which is focused on growing portfolio assets. So as of now in the next five years we clearly have a vision to grow our portfolio by three to four times and acquire assets at different interest rates and different valuations and therefore we will be far more resilient to such changes. In addition to that, the NAV will also be higher as we acquire greater assets at better accretive terms. Your point on the correlation is valid. If the interest rates go up in the same sets of asset, the NAV may become down. But if we are growing at regular pace by acquisition we feel that market price should factor that in, for example over last couple of quarters we have seen G-Sec in India increase by 100 to 150 basis points, which will translate to about 10% to 15% reduction in the price of G-Sec. In relation to that we have a drop of hardly about 3% to 4% at IndiGrid so one may take a cue from that.

Moderator: Thank you very much. We will take that as a last question. I would now like to hand the conference back to the management for any closing comments.

Pratik Agarwal: Thank you very much everybody for joining in this late hour and we look forward to talking to you again in three months' time. Thank you & good night.



*India Grid Trust Limited
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Moderator: Thank you very much. On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us. Ladies and Gentlemen you may now disconnect your lines.