



“India Grid Trust Q3 & 9M FY2019 Results Update
Call”

January 15, 2019



**ANALYST: MR. SWARNIM MAHESHWARI - RESEARCH ANALYST -
EDELWEISS SECURITIES LIMITED**

**MANAGEMENT: MR. HARSH SHAH - CHIEF EXECUTIVE OFFICER –
STERLITE INVESTMENT MANAGERS LIMITED**



*India Grid Trust Limited
January 15, 2019*

Moderator: Ladies and Gentlemen, good day and welcome to the IndiGrid Trust Q3 FY2019 Results update call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode. 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 “*” followed by “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: Thanks Ali. Good evening everyone. On behalf of Edelweiss Securities, I welcome you all to discuss IndiGrid Trust’s Q3 and 9M FY2019 results. From the management’s side, we have with us Mr. Harsh Shah, the CEO of Sterlite Investment Managers representing India Grid Trust on the call. I would now like to hand over the call to Mr. Shah for his opening remarks, post which we will have a Q&A session. Thank you and over to you Sir!

Harsh Shah: Thank you Swarnim. Thank you, gentlemen, for joining our 7th investor call. This is our 7th quarterly call since our listing and we are really happy to state our results and take you through our strategy in this call, and we will also address any clarifications that you may have.

We will start with Slide number 5 of our investor presentation. It highlights what we are. IndiGrid is India’s only power transmission yield platform which has only operating assets and is focused on steady distributions to its investors. As of now, we have got Rs 5,300 Crores of assets under management (AUM) for 13 lines and 3 substations across 9 states in India. We manage around 3,361 circuit kilometers and 7,000 MVA of transformation capacity. We are rated AAA by all the rating agencies – CRISIL, India Ratings and ICRA, on the back of a very strong concession agreement which has 33 years of residual contract lines and a perpetual ownership of the assets.

I now move to slide #6, which is the vision of IndiGrid. Our vision is to become the most admired yield vehicle in Asia, which is built upon solid fundamentals of transparency, governance and providing superior risk-adjusted returns to our investors. We have chosen every word in the vision very carefully, and this is our guiding statement in making any critical decision. While we achieve our vision, we have kept for ourselves a few measurable goals. We want to achieve Rs 30,000 Crores of AUM by 2022 by delivering predictable DPU (Distribution Per Unit) and grow that DPU by following best-in-class corporate governance, which ensures that investor interest is protected at all times.

With that strategy background in place of what we are and what we are focusing on, I am moving on to slide #8, which is highlighting our Q3 performance, as we stand today. So,

our EBITDA has grown by 32% year-on-year primarily on the back of acquisitions, which we completed during last year. Our availability has been greater than 99.5%, so, we are earning maximum incentives possible. We are distributing Rs. 3 DPU as interest for this quarter. This is exactly as per our guidance that we will distribute Rs. 12 this year; with this Rs. 3 we would be meeting Rs. 9 till Q3; and this would be our 4th quarter of distributing Rs. 3. Our FY2019 guidance of Rs. 12 remains on track, so Q4 distribution will be at Rs. 3. Our ratings are affirmed by all three rating agencies and our net debt to AUM remains at 47%.

Slide #9 talks about our operating performance. As you can see, our assets have consistently performed higher than normative availability and earned maximum incentives. So, we are confident that with our focused asset management technology, we will continue to earn maximum incentives out of these projects.

On the financials on slide #10, on the right side is the quarterly DPU chart. As you can see this is the seventh quarter, seven towers you can see. This is the fourth consistent quarter of Rs. 3 on a trailing basis. We distributed Rs. 12 over the last 12 months and now we are on the same guidance path to continue to distribute minimum Rs. 3 per quarter. On the left side is our consolidated financials for Q3 FY2019. We have closed this quarter with an EBITDA of Rs. 155.3 Crores. This is the first full quarter in which all the 6 assets have performed on a full year basis. Last year, we acquired different assets at different points in time, first being 3 projects from the sponsor in February 2018; second, Patran Transmission, a third-party acquisition in August 2018, and therefore quarter-on-quarter results changed in between. Having said so, Q3 FY2019 is the run-rate with all 6 assets contributing on a full quarter basis. We have achieved Rs 155.3 Crores of EBITDA, which is in line with our guidance and business plan.

Our DPU is at Rs. 3 and that is what we have distributed. I am happy to share that with this we have distributed Rs. 18.56 a unit, approximately amounting to Rs. 525 Crores to our investors since listing, and this would put us among one of the highest dividend-paying companies in India in terms of percentage as well as absolute numbers.

Coming to slide #11, this slide is showcasing how we have reached this DPU number. So, our EBITDA has been Rs 155.3 Crores. There has been Rs 9 Crores increase in working capital in this quarter. Interest on external debt is around Rs 53.2 Crores. We have repaid loans of Rs 15.7 Crores, leaving the cash generated in this quarter at Rs 77 Crores. Because our working capital change of Rs 9.2 Crores in the quarter, we utilized our cash reserves to meet that and therefore Rs 8 Crores accordingly was used from our cash reserves. Closing NDCF at IndiGrid was at Rs 85.1 Crores and we are distributing 100% of Rs 85.1 Crores in this quarter to meet our guidance of Rs. 3 per unit.

Coming to slide #12, it showcases our liability side. We have been prudent in managing our liabilities actively. We do not have any short-term CPs or short-term papers in our liability side, which can pose a risk to our liquidity or a very high interest cost. Over the last quarter, we saw a substantial churn in the financing market with respect to NBFC rates going up resulting almost in a liquidity crisis. We were fortunate that we had different types of long-term instruments locked in, so we were not impacted by market sentiment. Our ratings are still affirmed by all three rating agencies with a weighted average maturity of 8 years. As we speak today, we do not have any material refinancing or mandatory refinancing coming in the near future.

Slide #13 shows the performance how we have done vis-à-vis rest of the market or comparable indices. As you can see our beta is one of the lowest in comparison to other indices. Therefore, it remains one of the low volatility stocks available at a very high and good distribution yield.

Next slide is #14, again this proves our hypothesis that we would remain a middle or better than equity and in terms of returns; and probably equal, if not better, than bonds. As you can see, our total return in 2018 has been 3.5% positive on account of distribution that we have made. However, there is a shortfall in terms of relative performance vs GSEC. I would say this GSEC shortfall performance is on account of GSECs rallying over the last one month with OMOs and RBI trading in the market and corporate spreads have not yet come to normal, and therefore, the corporate spreads have remain widened, and it will take some time to match the yield compression for the corporates. Having said so, in comparison to any other indices on the equity side, including a close comparable like PowerGrid, we are better off in terms of total returns offered to investors in 2018.

We now come to the next section, a very important section, growth strategy. IndiGrid is focused on the yield, i.e. a stable yield to its investors. Along with that, we are focused on ensuring that our AUM grows, our DPU grows to our investors. With that in mind we continue to evaluate a lot of transmission assets in the market, including sponsor's assets on which we have the right of first offer.

As you can see on the next slide, there are 7 assets of the sponsor. Of this, two are already commissioned and the third one which is scheduled to be commissioned August 2019 has also been commissioned ahead of schedule. So, we clearly have three assets from our sponsor which are available for sale and we would look to acquire those to ensure that our DPU grows. The other four are at "under construction" level and as and when they are completed, we will evaluate them for further acquisition and growth.

On slide #17, we are showcasing how our AUM as well as -IRR for investors will grow at the IPO price of Rs.100. So, in our initial portfolio assets, the first blue column has two assets, Bhopal and Jabalpur Transmission Limited. After that, we acquired three projects from the sponsor; as well as acquired the third-party asset, which took our IRR to about 10% at Rs.100 a unit. As we acquire the next set of assets, our focus will be to reach our portfolio IRR at 12%.

Slide #18 showcases how our DPU will grow along with the IRR. So, as we acquire assets, with each asset we will look to increase our IRR as well as possible distribution per unit. And there is a very strong element of acquisition of a third-party asset as well as future sponsor projects beyond 2022 when we would have acquired most of the projects existing. As we speak now, there are many transmission assets available in the market which are getting completed, and which have been constructed. So, at the right time we keep evaluating those assets, and as and when those projects come to a decision-making level, we will come to investors for approval for acquiring such assets.

The next slide is showcasing the pipeline on slide #19. This is the first time we are seeing in the last 12 months that the transmission pipeline has picked up really well. And as you can see, in the first few line items there are about seven projects which have already come out for bidding, totaling over Rs 5,700 Crores. Therefore, these projects will be bid out soon and for us it will become a pipeline when these projects are completed. There are other projects from line number 8 to 17 which are approved in the Empowered Committee of Transmission, and we see those also coming into our pipeline, adding about another Rs 10,000 Crores to the pipeline. So, over the last four quarters, this is the first green signal we are seeing that over Rs 15,000 Crores of pipeline is existing right now and for IndiGrid it is even better as .we already have a pipeline of sponsor's assets as well as pipeline of non-sponsor assets available. Plus, this Rs 15,000 Crores which will secure our order book beyond 2022. So, we have a very good growth outlook going forward.

Slide #21 is just a reminder of what is driving us. So, we are looking at primarily more and more transmission spend on account of new green energy corridors coming in, new tenders coming in for generation projects, for renewal energy, as well as to match the gap of under investment in the past. I am very confident with the outlook that IndiGrid will not only provide stable yields but will continue to be able to grow it.

Summarizing our presentation now in few minutes – that we have had a very strong quarter with meeting our guidance of Rs. 3 DPU, a very strong operating performance as well and we have a very good growth outlook, which will allow us to grow further. Thank you. I would leave Swarnim for you to raise questions from investors now.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will wait for a moment while the question queue assembles. The first question is from the line of Dhiraj Dave from Samvad Financial. Please go ahead.

Dhiraj Dave: Congratulations for a good set of numbers. On slide #21 we are referring about the transmission missing link on RE. Basically this is non-conventional power, so do we envisage how the scenario is setting up in that area and do we see that as a lost opportunity for IndiGrid? Can you throw some light on that?

Harsh Shah: I am sorry I did not get your question. On slide #21 you saw a slide on renewable energy, green energy corridor is it?

Dhiraj Dave: Yes, on Transmission lines. So, we have mentioned transmission as the missing link. The time to set up solar power is around nine-months and transmission is the missing link and that will set up in around two to three years, so how do you see this sector adding up, because we see a significant amount of new power capacities. We are anticipating high growth in that area. So how will IndiGrid benefit out of it?

Harsh Shah: Good question Dhiraj. I will answer it in two buckets. I think transmission is the missing link. The headline communicates that the planning between solar power and any renewable power plants has not been in sync with the time taken to transmission lines built out historically. And therefore, consistently there have been representations to reduce the time required to build transmission assets by the bidders. I am very happy to see that most of the new tenders that are coming up, and some of them are coming up with the 12-15 months' timeline for transmission assets to be delivered, which would drive the growth of timely delivery of renewable energy projects as well. Now I will be answering what's in it for IndiGrid. So, coming back, we will not take any under construction risk of transmission assets f, and therefore, it is another opportunity for us to buy a new project. But if I were to simply put for us to succeed, the market should succeed, there should be more transmission projects getting delivered and with this mission in mind, if there are more projects two years ahead, that means our pipeline would be firmed up by two years. And therefore, we will be able to achieve our growth plan faster – that would be the indirect benefit for IndiGrid. Does that answer your question?

Dhiraj Dave: So, we do not see any immediate benefit because the sector is also evolving. We will wait for the sector exactly how it shapes up. And the second part is how would we do the bidding. So basically, in a conventional way, we have assured central utilities as central electricity board giving us assurance and commitment that once the asset is ready, we get our revenue. But how do you see that is happening, if there are any experiences on the non-conventional power. Have we come across any kind of thing or it is still nothing is

finalized, and it is just shaping up and we should wait for some time? Have you seen any experience about any dedicated transmission line for recycled power or whatever, solar power or something?

Harsh Shah:

Dhiraj, to answer that question, see that power has no color, right? And therefore, fundamentally in a transmission line you do not really differentiate whether you are transmitting a renewable power or a thermal power specifically. The same line can transfer both types of power. To answer your question, we are a part of an inter-state network of transmission in India, which is where all the interstate transmission lines pool in their capacity. And therefore, charge as one bill. This includes PowerGrid, IndiGrid, Adani Transmission, Sterlite Power, its subsidiaries, Kalpataru. All these inter-state owners of power transmission get paid on that pool and that pool which is run by PowerGrid is billed to the customers. So, there is no different payment methodology in a transmission payment between two interstate lines. It is the same mechanism – something called point of collection mechanism under the CERC regulations which is the same, so there is no new experience. It is the same way we get paid; the regulatory order has an experience of now over ten years, and it is working very well.

Dhiraj Dave:

If I can ask one more question, basically how you see the GSEC going down and as you have anyway commented in your initial remarks that you will be looking at the corporate sector, we are not still finding benefit of that interest rates. Because if I remember in Q2, our valuation was impacted by impairment due to an increase in yield, so should we envisage some kind of improvement in Q4 when we will be doing revised valuation, assuming that the interest rate remains at the current level, do we envisage some benefit coming to us because in the last quarter, I remember we had a significant impairment because of higher WACC resulting from increased GSEC. So can you throw some light?

Harsh Shah:

Right point Dhiraj. I think interest rate outlook is a macro-economic activity. It is very difficult for us to give a guidance on where interest rates will be three months from now or even two weeks from now. Especially in a budget quarter which is just very difficult for us to predict. Having said so, you calculated it rightly; our NAV calculation is impacted by WACC and interest rates; and relatively if interest rates move up or down, the NAV goes up and down. But where will we end at the end of this year is very difficult for us to predict. Fundamentally, the business has not changed, the cash flows have remained the same, risk has not changed, so none of that is changing. And therefore, the key moving lever will remain the interest rates and linked to that we have a policy of coming up with a revised valuation six monthly, we will come back to the specific report at the end of this half-year.

Dhiraj Dave:

If I may squeeze one more, last question, basically when we are looking at the funding side or liability side for the IndiGrid we are getting an eight-year duration, loan repayment over

eight years, but do we have any forex asset and if it is any foreign liability, sorry foreign debt what portion of debt and whether we have hedged that?

Harsh Shah: Good question. I think the first point is to clarify eight years is a weighted average maturity, so we would have facilities spanning for 14 years as well, so we can get long-term. It is a weighted average maturity, which is factoring in the repayments as well as their end payments. So that is one, second is we do have dollar loans which are fully hedged both for IRS as well as principle and coupon swap. So, they are fully hedged. These loans were taken five years back at the construction stage and we cannot refinance it till five years are completed under RBI guidelines. And therefore, we continue to maintain them, but they are fully hedged.

Dhiraj Dave: That is all then, all the best for future. Thanks a lot.

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

Sunil Kothari: Thank you very much. Congratulations for distributing Rs. 3 as an interest and congratulations. Sir, my question is just two three points. First, I want to understand what is the challenge we may be facing regarding QIP or new capital issuance, if you can share whatever concerns you are getting from probably to-be the new investors?

Harsh Shah: Thank you Mr. Kothari. I think we did a voting sometime in the last AGM in July and investors approved it by a very overwhelming majority. That is very helpful because the only way to grow this portfolio is to raise more capital and acquire more assets, which is a positive circle. Now if you ask me what our experience has been, I think in general in last quarter, the market has been bad, as you would have seen, almost like a mini crisis that we saw. Having said so, we do not see specific challenges in raising capital at this point in time. We would always have to tie in capital along with the M&As, so we look for acquisition when the asset is ready. It is better that we raise capital closer to the M&A so that it is hand-in-hand. As we speak right now, there are no new challenges that we see for investors to subscribe to IndiGrid and that is how I would put it. But beyond that, I think at the right time, when we are ready with the M&A opportunity we would come out and look for raising capital. SEBI has already allowed a preferential issue to raise capital, hence we would be able to raise capital from QIBs and family offices, which is allowed as per the regulations. So, one regulatory-issue which was a challenge few months back has been approved by SEBI.

Sunil Kothari: Any concern from investors because now I think what you require is a sizable or rather equal size of capital further to grow if you want to grow. So, any concern from the investors

for not putting sizable money? ultimately they also are looking at the price and their NAV because we worried because of the erosion in prices. So how you want to tackle this situation including as well as this SEBI related stock exchange minimum lot of -5103 units, any development on those things?

Harsh Shah:

Thank you Mr. Kothari. I think to start with your second question, definitely a lot reduction from 5,103 to a lower number would allow wider participation of investors in general. And there have been several representations to SEBI, not from us alone from several other organizations as well. I can say SEBI is considering it, but at the end of the day, regulators need to take a broader call and when they approve it, it will be definitely a fillip to all the investors. This is because the volumes will increase, better price discovery would happen and effectively more sets of investors will be able to participate. So, I clearly see that as an advantage as and when that is allowed by the regulators. Your first question was on the larger ticket size. I think it is a very stable yield instrument and I see a very good demand from investors contrary to what you mentioned. So, I think it is just a matter of time when the right set of investors, right set of assets come together to really make a large transaction. But I do not see any specific challenges in raising large size of capital. We feel we have a very stable product available at an attractive return today and I think that is a very compelling value proposition for anyone to invest.

Sunil Kothari:

Last point from my side, I am observing that during last three quarters, every quarter working capital is increasing. In the first quarter by Rs 18 Crores, second Rs 16 Crores and this is now another Rs 9 Crores, so almost Rs 40-45 Crores higher working capital over the last three quarters. And what trade receivables is in first quarter end, it was Rs 121 Crores and now almost Rs 153 Crores; and what we hear or read from the newspaper is that power generators are not getting payment from the users. So combining all these things, would you like to explain in detail why our working capital is stretching up and our receivables are increasing; so what is your thought process and what remedies we are having?

Harsh Shah: Very good question Mr. Kothari. I think first answer is that working capital increases because of several accounts. Now let me tell you the first one, which is the major. Our tariff is a curve right, so several projects, for example PKTCL project as well as RTCL project has a step-up in tariff in this year. For example, in a particular period they were earning X, the next period they are earning X plus 10, so what happens is that when you transition in such period, in the first two months of those transition your working capital expands because you book a higher revenue, but the collection comes from third month onwards. So, a good component of this working capital expansion is already planned for. That's because in these two projects, and even the third project Patran Transmission, it is going to happen now, after a period when the tariff steps up, for the first two months you build that working capital and after that, you start getting a run-rate payment, so that is one

major component of the change that we have seen. The second component, which we explained last quarter is also an advance payment made to the insurance payment, which is sizable about Rs 10 Crores, so when we make a payment for full-year, that month or that quarter working capital stretches because you feel like there is a Rs 10 Crores additional payment in advance, so that is primarily paid for the next 12 months. That is also factored in the plan. Having said so recognizing your concern, yes quarter-on-quarter versus last year if I compare month-on-month basis, we have seen relatively a lower collection as a percentage, but that is very marginal. And typically, what we see like infrastructure businesses in India, Q4 is where most of the collections picks up, and Q1 by that fact the collections go down. So, if you ask me it is not a three quarter, four quarter issue. Over the last couple of quarters, I would say that the working capital has expanded primarily on account of our revenue stepping up. Then that will get up in a run-rate, so we will see in Q4 and we monitor it on a weekly basis, we will see in Q4 our performance would improve and that would be the upside on a working capital side, so that is how it has been.

I am reading in the news there is a lot happening in the power sector, bank NPA a lot of it, even in such market conditions, I do not see any structural challenges that our business faces today. We keep evaluating it so I am not saying the risk is not worth looking at. This is the only important risk which we keep evaluating on a very regular basis, and there is a very close eye on it. I do not see at this point in time this becoming into a material risk item, while we continue to watch it and will discuss it in Q4 based on our performance how it looks like.

Moderator: Thank you. The next question is from the line of Kayur Asher from Reliance Nippon Life. Please go ahead.

Kayur Asher: I had a couple of questions starting with the future pipeline assets pipeline. I wanted to understand that given the future pipeline of assets that we have, how are we planning to fund these? I understand that the debt level that we have right now, the incremental addition has to be around 50:50 debt funded, and equity funded. So, I understand bulk of this would have to be via fund raise?

Harsh Shah: Thank you. Yes, you are right because we have a regulatory cap today at 49% of net debt to AUM. Any large asset acquisition will require an equity. They can still acquire a small asset of Rs 200-250 Crores without equity raise. However, for a large asset acquisition, we would require an equity raise by a QIP or a preferential issue.

Kayur Asher: And just to clarify one thing on slide #17 you have said that 12% portfolio IRR so that is assuming that the incremental fund raises at Rs 100, right?

Harsh Shah: No. That is just our reference rate. It is not indicating any incremental fund raise price. So, if I were to react to your question, if somebody invested at Rs.100 and all those acquisitions happen over a period of time as per our guidance as we are focusing on, post the last acquisition at Rs.100, one should look at 12% IRR for the investor who invested in IPO right, and that is what we are indicating.

Kayur Asher: So, any incremental funding at a lower QIP price that would be dilutive to the existing holders right?

Harsh Shah: Correct. Dilutive in terms of share capital, but accretive in terms of DPU and IRR. It is slightly different than the normal equity, Keyur. For example, in a normal equity IPO/equity QIP, the dilution happens but the end goal of that capital is usually not very direct yield generating acquisitions, and therefore it is all about synergy and raising via capital etc. Having said so, for IndiGrid or for any InvIT for that matter, any capital raise is linked to an asset which you want to acquire, and therefore the end goal is very clear. So even if you raise capital lower than 100, but if you acquire an asset, which is giving you better return than today, then it is an accretive asset acquisition and accretive capital raise.

Kayur Asher: Just another follow-up, given the valuation that we were talking about, is the company thinking of any buyback plans, given the prices that we see right now?

Harsh Shah: Good question. I think I would put it slightly differently. We are not a company. We are a trust and I am just investment manager of the trust. So as of now, the buyback regulations for the trust is not public. They are not published by SEBI so there are no provisions of buyback allowed under the trust regulations. Having said so what I would say is that in last quarter there was a purchase by the sponsor, and therefore the sponsor purchased when they saw the price was right and they purchased as a treasury operation and the disclosures were made around that. So, they purchased and not only our sponsor, I have seen other InVIT sponsors have also been purchasing. So, I would consider it as one kind of a buyback. Having said so, the second important point is that if we are distributing 90% or 100% of our cash to all investors, practically there is no cash for buyback within the trust, because the regulation requires us to distribute everything.

Kayur Asher: Is there any guidance or plans of sponsors putting in fresh money considering the valuations?

Harsh Shah: Yes, I can say what has happened in the past. So, last quarter they bought some shares and they disclosed it. I have no say in sponsor acquiring, but I do not hold any office in the sponsor decision making, so I am not the right person to answer that. Therefore, I think the

sponsor or any strategic investors keep evaluating these options and they make their own decisions on that front.

Kayur Asher: Thank you. Those were my questions.

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

Mohit Kumar: Good evening Sir. I have three questions. First, is there any guideline for the new issuance of InVIT units; and can you just broadly describe it?

Harsh Shah: There is a guideline issued by SEBI regarding new issuances and the guideline at a descriptive level is pretty much closer to a QIP guideline for equity. In terms of form & nature, it is almost aligned to the equity guidelines, except for the fact that they have allowed one or two more category of investors beyond QIB to subscribe in comparison to equity. Because in equity QIPs there are only QIBs who are allowed to subscribe, but in the equivalent capital raising process in the InVIT framework, they have allowed a little bit wider set of investors to subscribe. Baring that fact most of the crux of the guidelines of QIP has been maintained in this as well. Like for example, this has changed in a way that there is no discount provision to two-week trading average in InVIT guidelines versus QIPs have those flexibilities. but other than these two, I do not see any other changes pretty much most of the fundamental things are kept as it is by the regulator.

Mohit Kumar: What is this specific to pricing?

Harsh Shah: Specific to pricing the regulators ask for a base price not less than two weeks of trading average.

Mohit Kumar: So same as QIP?

Harsh Shah: And no discount allowed. In QIP you have ability to provide discount.

Mohit Kumar: But you are allowed to price higher there.

Harsh Shah: You are allowed to price higher, but not lower, and in comparison, to QIP you are allowed to price higher without any cap as well as lower by 10%.

Mohit Kumar: Sir is there any restriction on the sponsor for acquiring the units? How much can they acquire?

Harsh Shah: Yes, so sponsors can acquire from the market as much as they want till the time they meet the maximum shareholding guideline, which is I think 75%. So, if the sponsor wants to buy they can buy up to 75%. However, under a QIP process, the sponsor can only subscribe units in a way that they cannot cross more than 15%. Basically, the sponsor can only participate in a QIP if they are doing it to maintain their 15% which is the required level by SEBI.

Mohit Kumar: It means they can acquire up to 75% from outside?

Harsh Shah: Yes, they can acquire from markets, as they like.

Mohit Kumar: Sir, in the QIP is there any chance that you can go and market your product to a strategic investor, it is an option available to you?

Harsh Shah: Yes, as long as they qualify the QIB criteria of SEBI, whichever, that is FPI etc that is allowed.

Mohit Kumar: Not FPI let us say on the corporate entity?

Harsh Shah: Corporates I believe are already allowed, a large corporate investing a large capital would have a QIB license I would believe. But I would have to check specifically if they can subscribe without a QIB license. I would have to check on that and we can revert on that subsequently.

Mohit Kumar: Sir, one last question, how do we think about deciding on the maturity of your borrowing? Why do we have eight years of duration and why not higher, given that our assets are of far longer duration?

Harsh Shah: Correct, very good question, we keep exploring several tenured bonds. So, I think unfortunately our debt capital markets in India are thin. So, we go as long as possible. For example, out of our balance sheet, the maturity that we see in FY2028, about Rs 1,042 Crores is a fixed rate loan for ten years without any amortization, which is like giving a ten-year weighted average maturity, and if you compare it even an 8-year weighted average maturity with in a normal scenario it is equivalent to 16 to 18 years amortizing loan. So, eight years weighted average maturity of debt is fairly good for infrastructure project, which is like 16-18 years of loan. Beyond that we keep evaluating several options, but bond market being thin the options remain limited. Having said so we always look for choices and options to increase our tenure.

Mohit Kumar: Nothing restricts you from going to the ADB & World Bank, right?

- Harsh Shah:** No, nothing restricts us to go to ADB and World Bank.
- Mohit Kumar:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Mayank Sethi an Individual Investor. Please go ahead.
- Mayank Sethi:** Good evening Sir. Is there any possibility to generate revenue from consulting on telecom, like the industry leader does, and if there is a possibility is there any restriction in the TSA that allows or prohibits it?
- Harsh Shah:** Good question, I think. We are set up as a yield platform unlike some other benchmark companies in the country. We are a trust, and therefore, our focus is on ensuring earning yield out of our investments and upstreaming. Any consulting business by nature requires people in the entity which we have invested in. However, in case of this, investors have hired investment managers, which is me and my team to run the business well, but the consulting income is not going to happen because the entity which is IndiGrid and the subsidiaries do not have people. And focus of the business is primarily generating yield out of the assets and not create a consulting business. So that is one big difference.
- Second, you mentioned on telecom assets. Now telecom assets require a network, so one odd telecom asset monetization is not really a great way to monetize assets because the value is not coming out extremely clear. And therefore, it requires a large network. If we have to share, we need to share revenue of about 3,000 per year per kilometer of right of way utilized to the beneficiary. But our revenue will go down by that amount because that is what gets passed on to the beneficiaries of CERC, if we choose to monetize that first.
- Mayank Sethi:** Sir, my next question is based on the details available with the public the sponsor also bids for transmission lines in other countries such as Brazil. Do we in IndiGrid have any plans to buy any assets outside India?
- Harsh Shah:** No. We do not have any plans to buy assets outside India. One, in terms of plans as well as SEBI regulations do not allow us to invest in infrastructure assets out of India. Our mandate remains focused in India, Indian infrastructure and transmission assets.
- Mayank Sethi:** Sir, my last question is about the duration of our TSA which is 35 years. So, what will happen after 35 years, will CERC take back the assets or will they reset the tariff?
- Harsh Shah:** It is a good question, Mayank. I would describe that fundamentally we are a BOOM project. We are awarded this project under a build, own, operate and maintain mechanism. So, after

35 years, CERC cannot take back the asset. There is no provision under law that requires them to take back the asset. And if at all they want the asset back, they need to run an auction and whatever price that fetches they need to pay us, i.e., the legal entity which has the license. So fundamentally, the asset has a good value at the end of 35th year.

Now there are two options. One, though the asset needs to be utilized further for the transmission service, which is the most likely option, because a wireless power transmission is a very far-fetched reality today. And we believe that transmission would remain in-vogue. Transmission at the end of the day is the cheapest form of transmitting energy, any asset class. And therefore, it is the most efficient and cheapest way to transmit energy. And transmission lines will remain valuable for the system.

At the end of 35th year we believe that there will be a reset of tariffs – whether it is on a competitively bid basis or on a cost-plus basis or on a replacement value basis. Here it is difficult for us to predict as of now. Having said so, some of the earlier transmission line owners had filed a petition and CERC did revert by saying that they would focus on a regulated return to be provided on the equity block invested so that is the base case. Having said so, I would take you to a slightly different part. So first, transmission lines and assets belong to the legal entity, which is controlled by IndiGrid, and therefore no government or regulatory body has the power and authority to take it back without paying a consideration for that.

Point number two, incrementally the value of these transmission assets becomes higher, the reason being that it is over a corridor on which this transmission assets are built. In 35 years of time or rather every five years, we have seen that ability to build transmission lines on the same corridor almost becomes half or rather the cost and the difficulty almost doubles. The reason for this is that we are a very populated country, and therefore, rights of way are limited, and therefore, the paths available in the same area from point A to point B. becomes more expensive and more difficult, metal becomes more difficult, labour becomes more expensive. So effectively, the replacement value of the same line is much higher than if operated in the same line. And therefore, the corridor and the transmission become far more valuable as the time passes. We have already seen that in some of our assets. For example, in 2017, the Government came up with the regulation that the right of way compensation to be paid to farmers and landowners needs to be equivalent to 15% of land value below the lines and 85% of land value below the tower. Now this is for the new lines whereas our all lines are already built. If someone wants to build the same line, they will have to pay far more compensation in right of way versus what we have paid. So, that makes the asset more valuable as a replacement value basis. Having said so, while we have a very credible view that at beyond 35 years it will continue to earn money, 35 years is a long time. Whatever we earn at the end of 35th year, the value of that today is not more than

3% to 5% of our overall value, because of the discounting in time value of money –but its an important value for us because we do control the asset.

Mayank Sethi: Sir, if I squeeze in a follow-up question: in case we transfer it to another entity after receiving certain consideration at the end of 35th year, given the trust structure will the proceeds be forwarded to unit holders?

Harsh Shah: Very good question, Mayank. That depends on what the trust looks like on that day. Trust is a going concern. There is no maturity or a closure date of the trust, and therefore, if today there are about six projects in the company and in the 35th year we have 60 projects, if these 6 projects were to transfer and we got money, it will be a part of our NDCF. And SEBI has already clarified that whatever we sell as infrastructure asset that will form part of our NDCF and as per regulations, we will have to distribute as NDCF to our investors.

Mayank Sethi: I completely understand. This is all from my side good luck for the next quarter.

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

Hansal Thakkar: Harsh, just one question. In the absence of future acquisitions, how long do you assume we can continue this Rs.12 DPU?

Harsh Shah: Sorry, can you repeat that question?

Hansal Thakkar: In the absence of fresh acquisitions, how long will the Rs.12 DPU continue?

Harsh Shah: I think, in the absence of any acquisitions, we can continue for three years with such DPU at Rs. 3 per quarter.

Hansal Thakkar: You did answer in a previous question that you are likely to raise capital only when you identify certain acquisitions. So where are we on this scale of identification of fresh assets?

Harsh Shah: Hansal, I think we keep evaluating. It is very difficult to communicate on where exactly we are because in any acquisition there are several stages. Starting from term sheets and due diligence, we have a very robust process where we appoint highly qualified diligence agencies; and then it gets presented to investment committee of the board which is 100% independent. Their views are incorporated, then it goes to board, so it is a long process. It would be tough to communicate where exactly we are in the process, but we are running a robust process is what I can comment on that. And as and when there is something which is

closer to a decision making, we would certainly issue a notice for investors to approve and there is a good amount of details available.

Hansal Thakkar: Thanks so much. That is all from me.

Moderator: Thank you. The next question is from the line of Swarnim Maheshwari from Edelweiss Securities. Please go ahead.

Swarnim Maheshwari: Thanks. Sir couple of questions here. First, now when you really look at the nine-month performance, I think so far we have actually used around Rs 45 Crores of cash reserves; now you did mention about the working capital challenges in the last nine months or so and we do expect some sort of write-back in Q4. I have two questions over here. One, what is our existing cash reserves at the IndiGrid level; and second, do you see the same thing happening over the next few quarters, or you do expect there should be some sort of write-backs in our cash reserves?

Harsh Shah: I think first to answer the factual question – at the end of the quarter, we have about Rs 51 Crores of cash which is as on December 31, and that goes up every day as the cash collection comes in. So if I were to put it in a way the question, how much reserves we have – so we have about Rs 51 Crores of reserves in cash.

Second thing you asked – I would not say that there is a Rs 45 Crores of cash reserves consumed, most of it is planned. We already know that our revenue is stepping up, so we know that we have to consume the reserves. This is one of the reasons we build a reserve and large part of this reserve came from a couple of orders which we knew in the first year of operation. In JTCL we received extra cash and on the back of this reverse utilization, itself we planned for three years and beyond guidance of Rs. 12, and therefore, most of it is part of a plan. Having said so, yes there has been a shortfall in the receivables, but typically it is a seasonal business and Q4 catches up in collections, so we are just hoping for that in Q4.

Swarnim Maheshwari: So, what should be our targeted cash reserve by the end of March 2019?

Harsh Shah: I think it should be at least at Rs 51 Crores at the end of March 2019.

Swarnim Maheshwari: Sir, secondly if you can just highlight some of the changes proposed or which are under discussion with SEBI to make InvITs more attractive. Something like raising their debt ceiling, or what are the other changes that have been under discussion, can you highlight few of them?

Harsh Shah: I think see most of those discussions at SEBI as well as advisory committee meetings are highly confidential. It would not be appropriate for me to really be speaking about that. Having said so, there have been several editorials, articles, which have come out by different industry bodies and industry leading professionals which have spoken about similar issues – like reducing the lot size, enabling better net debt to AUM leverage to ensure that there is better yield for investors in line with the industry practice, allowing better limits for insurance companies to invest in units. These things are public, and these always get discussed in several forums as well.

Swarnim Maheshwari: Got it Sir. Thank you so much and wish you all the best.

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

Pratik: Sir, have we paid investment managers for the year? We hadn't paid in the first half. Is that taken care of now?

Harsh Shah: Yes, we have paid the investment manager.

Pratik: Thank you.

Moderator: Thank you. That was the last question I now hand the conference over to the management for their closing comments.

Harsh Shah: Thank you Swarnim and thanks all the investors for having joined us on the 7th quarterly call. I would just say it has been a long journey for me personally as well as for the platform. We have built this starting from scratch from regulations when they came in first in 2014, and subsequently the IPO in 2017, with support from all the investors. I think we are very happy to say that incrementally we have made good amount of progress on regulations, on commitments, on acquisitions, on distributions and very good to see a track record of seven quarters as we see for distributions dividends.

I would like to put that into perspective what I mentioned in the initial part of the call. If one were to compare a DPU to price as a cash yield, we would land in one of the highest dividend-paying stocks in the country. Even on a post-tax basis, if one was to consider a 30% or 33% marginal tax, which would put us in over 10% post tax cash yield, which would be higher than most of the dividend paying stocks in the country. So, we believe it is a very attractive proposition and looking at a back-end we have seen investor confidence grow on a weekly basis.

Some of you have participated very actively, given us feedback, we have worked on that, changed it and then really appreciate your commitment to stay invested. We have seen more and more institutional as well as educated investors like yourself join and participate in the platform; and we are very confident that over the period of next 12 months, we will see a lot more new things happening for InvIT in terms of some positive changes in regulations, in terms of first few capital raises and first few M&As. So, I see a very good outlook and maybe new listings of other infrastructure assets as well.

We see this as a very fast emerging asset class developing in India. Historically Singapore, Hong Kong, Australia, UK and US have gone through their own journey, but we have seen that after the initial few years of launch suddenly after the inflection point, the issues and the sizes become large. So Singapore market today, has got more than 50 listings. About few I would say \$10 billions of dollars of market cap and the same would go for the other markets. So, I see considering the amount of infrastructure assets with both private and public capital is invested in, this instrument, offering a very good attractive large opportunity for investors to participate and for India to have a vehicle where people can own a distributable share in an infrastructure asset and earn income over a long period of time.

We are very happy and bullish about the product. Closing with our own performance, we are focused on our performance and we will continue to remain focused on our distribution, corporate governance and ensuring we grow our distribution. We are committed to that, so I would like to sign off on that basis and wish you all the best for the next quarter. Thank you.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Edelweiss Securities Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.