"IndiGrid Infrastructure Trust

Q3 FY '25 Results Conference Call"

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MODERATOR: **MR. VIKRAM DATWANI – NUVAMA INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Third Quarter FY '25 Results Conference Call of IndiGrid Infrastructure Trust hosted by Nuvama Institutional Equities. 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vikram Datwani from Nuvama Institutional Equities. Thank you, and over to you.

Vikram Datwani: Thank you. Good evening, everyone. On behalf of Nuvama Institutional Equities, I welcome you all to the Third Quarter FY '25 Results Conference Call of IndiGrid Infrastructure Trust. We are joined today by the top management of the company represented by Mr. Harsh Shah, CEO and Whole Time Director; Mr. Navin Sharma, Chief Financial Officer; Ms. Meghana Pandit, Chief Investment Officer; and Mr. Satish Talmale, Chief Operating Officer.

I would now like to hand over the call to Mr. Harsh Shah for his opening remarks. Over to you, sir.

Harsh Shah: Thank you, and thank you, everyone, for joining in the quarter 3 FY '25 call. We'll follow the agenda of going through the presentation and subsequently answering any questions that you may have.

I'm starting with the presentation on Slide number 3, which is to reiterate our vision to become the most admired yield vehicle in Asia by focusing on the long-term contract business model, value accretive growth, predictable distribution and an optimal capital structure. Based on these, as you can see on Slide number 4, we have built a portfolio of approximately INR29,400 crores across India across transmission lines, substations, solar and battery energy projects.

Coming to the quarterly highlights on Slide 6. During this quarter, we have signed battery energy storage service purchase agreement, which is called BESPA for NVVN Battery Energy Storage Project for a capacity of 250 megawatt / 500-megawatt hours. We had won the bid in the earlier quarter. The agreements for which are signed. So, we will be building this project.

We also signed definitive agreements with British International Investment, BII, and Norfund to set up EnerGrid, which will be a $300 million equity infrastructure platform to focus on greenfield transition opportunities and BESS opportunities in India. This will allow us to do about $1.2 billion to $1.5 billion of projects in this space, which will eventually become the pipeline for IndiGrid to grow.

In this quarter, we also commissioned RTM projects which were awarded to us for the augmentation of the current assets in PTCL, which is Patran Transmission Company Limited and Kallam Transco. We're happy to commission these projects and these are the first under construction RTM projects, which were awarded to IndiGrid. And this is the third project that we have commissioned since we started doing anything under construction.

In terms of financial performance our FY -- quarter 3 FY '25 revenue and EBITDA has witnessed 2.4% and 2% year-on-year growth, respectively. AUM and net debt stands at INR29,400 crores and 59.6%, respectively, which leaves us a sizable headroom for us to grow. Collection for the quarter was 100% for transmission assets in business, and 105% for solar business, which is really good performance for us for this quarter.

And DPU for the run rate that we are providing, we had committed to INR3.75 a unit, and this is the third quarter for the financial year where we are paying INR3.75 a unit, which will be in line with the guidance of INR15 a unit for FY '25.

Our average transmission availability is at 98.55%, marginally lower due to a couple of shutdowns that we have seen and experienced in couple of our assets and the solar CUF is in the range of 20.2% for the quarter. We were able to deliver a sustainable increase in DPU and stable operations.

Coming to Slide 7. As an industry update, the peak demand, capacity -- the peak demand and capacity has been consistently growing. Peak demand growth has reduced marginally because of the winters, but we believe the long-term trend remains intact, and we will see sizeable growth. Within the sector, augmenting the overall consumption for electricity in transmission and renewable, we are seeing sizeable amount of investment and growth happening in this business.

National Electricity Plan for transmission, we've seen a massive investment opportunity of over INR 9,15,000 Crores till 2032. This offers a sizable opportunity for players to participate and build assets to deliver a sustained growth.

Out of the overall...

Moderator: Sir, I'm sorry to interrupt. Your voice is getting muffled sometimes. Can you please repeat the last part, please?

Harsh Shah: Okay. Sure. Thank you. So with the overall pipeline of INR9,15,000 crores in the transmission segment over the next 7, 8 years, we believe that players like us have significant advantage to capture parts of growth and grow unitholders' value and provide higher distributions.

As you can see on Slide 8, out of the larger pipeline of INR9 lakh crores, we are already seeing active bids worth INR58,000 crores, which is currently out for bidding and which will be a target segment for us to evaluate -- to explore the growth. So we are seeing overall a very thriving sector and very good opportunities for players like us to grow.

Coming to our quarter 3 FY '25 operating performance, I will invite Satish, our COO, to speak about the updates on that front. Satish?

Satish Talmale: Thanks Harsh. So on quarterly optional performance to start with HSE, so we had no major incident as far as HSE performance is concerned. Zero fatality, zero medical treatment cases and zero first aid, we had one minor lost time injury event, which was very, very of minor nature.

On overall performance, power transmission, we achieved average availability of 98.55%, which is slightly lower than our run rate because of two specific events as related on the chart, GPTL and JKTPL that is laid by transformer events, which are largely mitigated under insurance coverage. On solar generation, we achieved 380.6 million units, which is generated at 20.2% CUF. Reliability point of view, trips per line is one of the lowest performance, in terms of record performance among several quarters, and substation trips are also lowest as far as reliability is concerned. Solar average plant availability is at 98%.

Key updates, increased reliability, which we have taken in the last 2, 3 years of activity, is showing, trips per line as well as overall performance. All assets are now on IndiGrid digital platform, which is a digital platform for predictive maintenance. And we are trying to maintain a consistent track record for superior reliability and performance.

I will hand over to Navin.

Navin Sharma: Thank you, Satish, and good evening, everyone. We are on Slide 10. We recorded revenue and EBITDA of INR772 crores and INR694 crores, respectively, reflecting 2% Y-o-Y growth. Net distributable cash flow for the quarter was INR333 crores, and the Board has approved a distribution of INR3.75 per unit, representing a 5.6% Y-o-Y increase in DPU.

For quarterly collections, we assumed 100% for the transmission business and 105% for solar. Over the trailing 12 months, collection performance at the entity level remained above 100% with both business segments showing similar strength. The DSO as of December 31 stood at 48 days for transmission and 50 days for solar, marking substantial Y-o-Y improvement across both segments.

Next slide, number 11. The DPU for the quarter stands at INR3.75 per unit. This will be distributed as interest, dividend, capital repayment and other income amounting to INR2.75, INR0.13, INR0.82 and INR0.05, respectively. With outstanding units totaling INR83.45 crores on record date, the gross distribution to all unitholder comes to INR313 crores. The record date for this distribution is Jan 28 and unit holders are expected to receive the distribution by Feb 4. As of December 31, the NAV per unit was INR142.3.

Following this quarter's distribution, IndiGrid will have distributed INR97.22 per unit, totalling INR5,866 crores. On the right, you can see the Y-o-Y distribution trend reflecting stable and scalable growth of 6% over the years. Moving on to Slide 12. There was a typographical error in the slide uploaded earlier, which has since been corrected and re-uploaded.

Here, we have a waterfall chart detailing the progression from EBITDA to NDCF generation and distribution. At the SPV level, we recorded a consolidated EBITDA of INR704 crores. After accounting for finance income, working capital changes, capex and taxes at the SPV level, the NDCF generation comes to INR736 crores.

After adjusting for trust level expenses, finance costs, DSRA, working capital changes, taxes and debt repayment, the NDCF is INR333 crores. In Q3 FY '25, we added INR20 crores to reserves, bringing the closing reserve to INR510 crores, which exceeds one quarter's DPU based on current guidance. That's all from my side. I will now hand it over to Meghana to continue with the next slide. Over to you, Meghana.

Meghana Pandit: Thanks, Navin. Good evening, everyone. I'm on Slide 13 which provides an overview of IndiGrid's balance sheet. We continue to remain AAA rated by all the three rating agencies, CRISIL, ICRA and India Ratings. And the average cost of debt as on 31st of December 2024 was recorded at around 7.65%.

The cash balance was around INR2,175-odd crores, slightly on the higher side, basically because there was about INR660-odd crores of debt which we had raised in December and which got utilized in January. Part of it which got utilized in January and rest is getting utilized. It also includes around INR313-odd crores for this quarter's distribution and almost INR483-odd crores for DSRA lien mark.

Almost 75% or three-fourth of the borrowing book is reflected in terms of fixed rate borrowing. And the net debt to AUM or the leverage ratio is about 59.6%-odd and a very healthy interest coverage ratio of 1.87x. The gross borrowing for IndiGrid stands at around INR19,300-odd crores split equally between NCDs, bank loans and ECB. And on the NCD site also, diversified across various investor classes from mutual funds, banks, financial institutions, retail HNI and so forth.

The bar graph that you see at the bottom of the chart reflects the repayment or refinancing schedule over the next few years. For FY '25, almost everything is almost refinance, what you see is the scheduled repayment which is coming up. And FY '26 onwards, as you can see it's a well-diversified and termed out borrowing profile ensuring that we have not bunched up any maturities in any particular year and tried to remain approximately between 12% to 13% of gross borrowing which will come up for refinancing every year.

Moving to Slide #14 which talks about the total returns which IndiGrid has been provided since the time they got listed, total returns being reflected in the form of distribution plus price change. And as you can see on the graph the total absolute return which IndiGrid has delivered since the time we got listed in 2017 is about 140%, translating into an annualized return of about 12% which when compared with pure debt as well as pure equity indices on a risk-adjusted basis.

You can see IndiGrid has provided superior risk-adjusted returns, risk being demonstrated through beta which you can see is 0.08 for IndiGrid, whereas for all the other equity indices are quite close to 1. Moving forward on Slide #15 to talk about the business outlook. Our portfolio strategy continues to remain focused on ensuring stable operations for a predictable and sustainable distribution while, of course, focusing on value-accretive acquisitions across transmission and solar.

The Greenfield development which we have taken up in IndiGrid is enabling us to completely focus on executing the balance augmentation work which is there as well as the three new transmission projects that we have won plus the three BESS projects that is also under execution and within time lines for us to execute.

In addition to that, given the huge industry opportunity available on both transmission and battery, we are looking to participate in these Greenfield opportunities through the EnerGrid platform. And also ensure on delivering the DPU guidance of INR15 for FY '25. Parallel to this, of course, ensuring that the balance sheet strength continues to remain.

We are looking at optimizing the interest cost and ensuring how the duration of our debt book continues to -- how we are able to elongate that with respect to the future acquisitions and the refinancing opportunities which come through and consciously managing the leverage ratio with about a 59.6% leverage ratio, it has left a significant headroom for us for business growth. Resilient asset management again continues to be our forte and focus area see to it that we maintain at least 99.5% availability across the portfolio.

Similarly, trying to improvise on self-reliant O&M practices across the portfolio and seeing to it how we utilize digital tools in terms of predictive analytics and ensuring again, world-class EHS and ESG practices. On industry stewardship, we continue to participate in various industry forums, one on the electricity sector side to ensure how private sector participation can improve.

And on the other side, through Bharat InvITs Association also focusing on increasing awareness about IndiGrid and overall about InvITs. Slide #16. This slide basically depicts how since the beginning of FY '18, various acquisitions that we have done -- accretive acquisitions that we have done has enabled us to An increase the DPU on a year-on-year basis and at the same time elongate the tenure of maintaining the DPU.

And the various colors that you see on the graph reflect various acquisitions that we have done, basically ensuring that the increased DPU, we are able to maintain for a much longer period of time and also increase going forward. We'll take a pause here and move on the Q&A section, please.

Moderator: Thank you very much. We will now begin the question and answer session. We'll take our first question from the line of Ketan Jain from Avendus Spark. Please go ahead.

Ketan Jain: My question was on the battery storage project. We recently signed with NVVN of 250 megawatt. Ma'am, what does the capex look like for this project and how much of the capex goes into buying the battery and EPC or other components? If you could share some light or colour on the capex and on the project and also just a second question to this is how is it imported like is the battery alone imported or the container fully gets imported like if you can just throw some light on these things?

Harsh Shah: I think to answer your question, first is we are still finalizing the capex. It's a dynamic market like it is in the range of I would say INR1,700 -- sorry INR700 crores to INR800 crores is that we are expecting. Majority of the capex are sizeable more than 50% of the capex is battery and battery system. There are obviously AC components, civil services, IDC, other works, but the substantial component remains the battery.

Your next question whether you import battery, we can explore both. We can import modules assemble in India and use the container or we can also import container itself. We are exploring both options. We have both options and both options have its own advantage and disadvantage. At least at this point in time in India, we do not have any capacity of module manufacturing.

The battery modules or cells do come from China. The assembly, we have some capabilities in India. So we are evaluating that. We are evaluating that option. And based on the overall pros and cons, we will have to make that decision, but for our first project Kilokari BESS, which was a small one, we have imported containers.

Ketan Jain: Understood. So is it fair to assume like out of INR800 crores estimated around as you said 55% to 60% is battery. EPC would be around 20% to 30%?

Harsh Shah: I don't think I can share those details. I said it is more than 50%. So just to give a ballpark that this is the largest item. What is the exact capex I think we'll disclose along with our financial that's the best time to look at it.

Ketan Jain: Understood. And just another question with it. How does your strategy -- what is your strategy on in terms of when you plan to order the batteries? Are you looking to wait further or looking to order now? I mean just the general strategy on...

Harsh Shah: Our general strategy is low-risk strategy. We don't play the game of waiting for further reduction, etcetera, whether it's interest rates or batteries. We try to factor in what is the current market condition and bid base on that. And once we bid and win, we want to lock in the prices as early as possible. So yes that's our general strategy.

Ketan Jain: Yes. Understood sir. Thank you. That’s it.

Moderator: Thank you. Next question is from the line of Puneet from HSBC. Please go ahead.

Puneet: My question is on your three Greenfield projects you have won. Will they come under the BII JV or is that separate from this?

Harsh Shah: Those projects have already been invested by BII and Norfund directly. At that time, EnerGrid was not formed legally. So BII and Norfund have invested in these projects directly. But practically, it's the same investor who invested in both. So it is part of the joint venture where they are the investors -- current investors in those three projects. And there is third investor, which is our contractor Techno Electric, they are also investors in the first two projects.

Puneet: So out of the three, two projects you don't have a stake at this point of time?

Harsh Shah: No, we do have a stake, but we have less stake.

Puneet: And what is your stake in that?

Harsh Shah: I don't know the exact number, but I think our stake will be in the range of 30% -- 30% to 35% in between that in all three projects from equity contribution perspective.

Puneet: This is all for all three projects?

Harsh Shah: Yes.

Puneet: And what is the mandate for this? I mean, what is the size of investment that you are looking to do say over the next 2 years, 3 years through this plan?

Harsh Shah: So I think -- see -- okay. So there are two ways to look at it. One is the InvIT regulation allows us to approximately 10% of our assets which comes to around USD300 million of total size. We don't plan to do that much. And therefore, our contribution to EnerGrid is going to be in the range of USD100 million.

So at this point in time we have committed 100 million and the other 200 million is coming from BII and Norfund. So our capital contribution is locked in at 100 million in this joint venture.

Puneet: Okay. So, this a development platform with equity investment of USD300 million?

Harsh Shah: That's correct.

Puneet: That's how one should think about it. And if you lever it 75-25, you're looking at potentially -- plus...

Harsh Shah: 1 to 1.5 billion.

Puneet: And over next 3 years is what one should think this money will be deployed or is it a longer period of time?

Harsh Shah: Since 3 years is a long time with the current status of the sector. We are seeing a lot of opportunities. But even if we win a billion dollar of projects, the usual construction time line is 2 years. So it's reasonable to assume that we will take 3 years to develop. And then therefore acquire back in IndiGrid when it's commissioned. So I think, yes, it's a reasonable assumption it will take 3 years, but if we see more opportunities, I think people will be happy to contribute more capital and make it even larger.

Puneet: Okay. And nonetheless whenever you acquire, this money will be reinvested, I presume by the other partners again?

Harsh Shah: Yes possible. It's everyone's choice, but yes that's logical as long as we see more opportunities.

Puneet: Okay. And does it mandate that you have to invest up to 200 million or can it be lower amount as well? Is there -- what kind of agreement is it? Just trying to understand how big that is...

Harsh Shah: Agreement is everybody at par, we are depending on the size of the project that everyone's agrees to bid and win, we will contribute. But the contribution is at par from all partners. So if we win a big project, everybody will share appropriately in the same manner. If it don't win, then nobody will contribute. It's linked to the bids that come across.

Puneet: And who is the leading partner in terms of deciding on what is the price to bid?

Harsh Shah: There is no lead. It's a consortium. It's an independent platform. We are putting a separate management team for that. So IndiGrid is not the lead. IndiGrid is again a significant minority investor, Similarly, the two investors are there. So it's an independent platform. We are just seeding it. But it's not IndiGrid platform. It's an independent platform that we are seeding.

Puneet: Understood. But that understanding is definite that everything will have to be sold to you or can...

Harsh Shah: Yes. That is the reason why IndiGrid is contributing. It has to be sold to IndiGrid.

Puneet: Yes. So that's a part of the agreement?

Harsh Shah: Yes, yes, correct. But we aren't the lead, but that's the part of the agreement.

Puneet: And how do you decide that price? Is there a formula to decide early on...

Harsh Shah: It gets decided at the time of the bid between all parties, upfront.

Puneet: Okay. So at the time of bidding for the projects, you will decide at what value you will buy?

Harsh Shah: Yes, yes.

Puneet: Okay. So are you in a position to disclose these projects? What is the potential value that can come in?

Harsh Shah: I think we'll have to check disclosures because we -- I don't remember how much we have disclosed in the agreement around that. We will check. But yes, without knowing whether we have disclosed or not, is difficult to disclose right now on the call.

Puneet: Understood. That's helpful. And lastly, just on broader sector. Do you still see the momentum on bidding continuing for next 2 years, similar level to what we saw last year, close to INR1 lakh crores of bidding? Or you think it will potentially slow down since a lot has been done already?

Harsh Shah: No, I think next 2 years will also be exciting. There will be significant investment continue in this sector. Now I don't know year-on-year because the year-on-year is impossible to track, right? Nobody looks at this business year-on-year. We look at a 3- to 5-year trends. So sometimes bids that are going to be done this year get preponed to last year or last year bid get postponed to next year.

So all the calendar and financial year may move. But in general, as we ask 2-, 3-year bucket, we are pretty excited there's a sizeable amount of bids coming.

Puneet: Okay. And would you see potential impact of slowdown that we are seeing in signing PPAs, etcetera, on the grid investment as well? Or that is largely independent of that?

Harsh Shah: I think it's largely independent because, see, if you link the two, then -- when you sign PPA, you will not have the grid, right? So effectively, if you slow the investment on grid side and BESS side, eventually, when you need it, you will not have it. So I think that policymakers understand that. So I don't see a material impact on the rollout of transmission lines because of little bit of delay here and there in signing BESS -- or signing PPAs.

Moderator: Next question is from the line of Ravish Chandra, an Individual Investor.

Ravish Chandra: Mr. Harsh Shah and team, congratulations once again for the consistency. I have two questions. One is to Mr. Satish regarding this operation efficiency, slightly reduced this quarter, 98.5%. Will it effect on our incentive, what we get when we maintain the availability? That is the first question. And he also mentioned that it is covered under the insurance, if there is some damage to equipment or something maybe.

And the second question, Mr. Harsh Shah, this KKR now sponsor -- their percentage has drastically reduced to 1%. So is it okay to have 1% as per the -- I think so. But in Slide 21, We are having GIC 17% and other FII 17%. But on the left side, KKR and GIC put together, 35%. So that is the second question. Maybe -- that's it.

Satish Talmale: Yes. Thanks for the question...

Harsh Shah: Thank you. I'll answer the first question, and Satish, you can go for the operations. I think to your first question, is there a need to worry because KKR's sponsor has less right now, just a 1% stake now. Our response is no. The business is not run by sponsor. The business is run by investment manager, which is me, Satish, Meghana. All of us are part of investment managers. The entire management team runs the business. The Independent Board runs business.

And that is 100% owned by KKR. KKR, like many other institutional capital managers, is a capital manager. And there is a global control of fiduciary role. So I don't think there is an impact on business or governance of any kind just because of KKR or rather KKR funds investment reducing to 1% because even the investment at IndiGrid level, it was not KKR balance sheet.

It was the fund of KKR, in which KKR itself was not a majority owner. There were other investors, right? So KKR's role, whether as a sponsor or integrated investment managers, is to manage the infrastructure money and capital well. So that has not changed. They continue to remain 100% manager of the investment manager.

So I don't think there will be any impact on the business just because of shareholding reduction. Other I would say, the liquidity event of one investor monetizing has resulted into several investors, new investors ability to participate. And in general, liquidity has gone up. So I think there is no negative impact on that.

To your second question, GIC remains invested. FII Holding is at 33%, which includes GIC, other FIIs put together. So that's the description. Like the other FIIs like Tribeca, like AIMCo, like GIC, Schroders variety of names over there. To put together, they own about 35%. That's what the slide is trying to communicate. I think, Satish -- over to you.

Satish Talmale: Yes. Thanks, Harsh. Yes, you are right. Actually, this particular two assets GPTL and JKPTL that is attributing to the availability drop in this quarter. And this is mainly due to transformer breakdown events. And to your point, yes, it is impacting incentive as well as revenue. But it is largely covered by business interruption policy coverage by insurance.

Moderator: Next question is from the line of Dhvanil Raut from Dalal & Broacha.

Dhvanil Raut: I just wanted a brief overview on your distributions and why the SPV debt repayment was a bit more than what is usually. And I just want to know why you all have given such a bifurcation, some more light on that?

Harsh Shah: Navin, you want to answer that?

Navin Sharma: So SPV debt repayment, it was -- in the slide, subsidiary debt repayment is limited to INR10 crores. So considering the debt, etcetera, it's not that significant. And talking about this waterfall, it's just to give investors more visibility on how operational performance like EBITDA is converted into -- how from EBITDA we are working out NDCF generation and distribution, etcetera.

If you have any specific question on this, I can help you with that. But largely, this detail or waterfall is to educate investors, that's how the operational numbers are converting into NDCF.

Dhvanil Raut: Yes, just like I wanted to say that the SPV debt repayment was almost more than double this time, before what it was in the last quarter?

Harsh Shah: Okay. To answer that question, very simply put, management's discretion in deciding whether to pay interest or capital repayment is almost zero, okay? There is -- we -- as InvIT has to pass through the manner in which SPV distributes money to unitholders or to InvIT itself. Under the tax regulation, we are supposed to exactly mirror that, right? So in some SPV, sometimes in some quarter, you earn more cash than interest.

Then we have to upstream the rest of the cash as capital repayment. It's not that Navin and I decide that this time we want to do capital repayments and do less interest payment, right? If the cash flow of that SPV is higher than the interest for the quarter, we will see more. And next quarter if the cash flow is lower, you will see more interest than capital repayment. So it's completely driven by accounting and the tax regulation.

It's not a discretion that we increase. And now I think in the number of SPV that we see is sizable in our portfolio. So first, level of variability happens on SPV. The second is sum of parts, right, of 30 SPV. So it's not that we decide what we want to do. It is done by the same formula, same process as being required by tax and the regulation. So I think that's how I'd answer.

It does not impact investors greatly because -- but if the capital is higher, probably the tax impact is deferred and it's in the form of capital nature. But it's not that we have ability to change all that, right? So I think it's just the way the tax and the accounting is structured.

Navin Sharma: And to my bad, Dhvanil, I could not understand your question appropriately.

Dhvanil Raut: I'm sorry. No, I just wanted some clarification on how you will bifurcate your distribution. And I guess sir has already mentioned that. So it’s covered.

Moderator: We'll take our next question from the line of Pratik Kothari from Unique PMS.

Pratik Kothari: Just one question, Harsh. How should we think about the role of sponsor? And what part do they play in our trust structure?

Harsh Shah: Okay. Very interesting. See, I mean, there is a very specific role that SEBI regulation has described as sponsor, like it's a list of activity they need to do. And the biggest one, okay, is -- biggest one is to contribute assets. Because when they start the business, the sponsor is the one who has established the trust and starts the business, right, subsequent to that, right, role of sponsor is very, very limited.

Because the investment manager is the one entity which makes decisions about business, the operations, the investments, everything to do with the trust. There is -- if you compare roles between sponsor and investor – it’s investment manager, it's -- I would say, I don't know how to set proportion, but it's like sponsor has more role to that extent.

Now in many of the cases, depending on the size of the InvIT, longevity of the InvIT, evolution of the InvIT or need, the sponsors own investment manager in many times. In that scenario, people do tend to assume that they are same, right? And therefore, sponsor and investment managers are used interchangeably.

But if you dig one level deeper, you realize that the roles are different and the business is run by the investment manager, not the sponsor. So at least in our context, where the sponsor does not own the investment manager because the sponsor in a fund, like KKR. Rather investment manager and its parent control the sponsor, right, in our case, that's the reality.

So it's -- the role is pretty small or negligible in manner.

Pratik Kothari: Correct. And is it mandatory now by law to have a sponsor? I mean, always. Or we are passed that?

Harsh Shah: It is not mandatory to have the sponsor by law. However, SEBI has changed the regulation several times. So it is a possibility that you can have investment managers sponsored InvIT, okay? There is no sponsor then the investment manager itself is sponsor. It's possible. But there are a variety of steps and all that.

So the original sponsor lock-ins have been expanded to a perpetual lock in a 1%, right? So it needs to be seen. And if you want to become an investment manager sponsored entity, we need to go back to unitholders and take 75% unitholders need to agree to that, which is a very steep threshold. So any such change is extremely difficult, but it is possible.

Pratik Kothari: Correct. Right. Second, on this battery storage, given until now the assets that we were acquiring were either 35 years or 25 in solar, from an asset liability perspective, I mean, would battery incrementally make more sense for us given the kind of liability profile that we have here in our country?

Harsh Shah: I mean, so we look at IRR, okay? And when we're looking at IRR to acquire a particular project, I mean, yes, I would like to make the same IRR for a 35-year project because the same amount of work we are assuring with them for a longer period. So I would still prefer long-term concessions because that offers you a longer-term visibility. Having said so, it is not possible to have very long concession with batteries because the lives are relatively shorter.

So we don't want to take that risk. But I don't think ALM is a decision-making criteria and investment in battery. I think the decision-making criteria remains of getting good risk return and good quality cash flows. That's the focus from our side.

Pratik Kothari: Got it. And last one, I mean, this tie-up that we have done with Norfund and BII, this is basically all incrementally new greenfield assets that we build for and eventually acquire. But in terms of existing assets, I mean, do you see any activity happening in there or for us incrementally it is this route which will kind of better assets?

Harsh Shah: No, I mean, see, we are -- other than the under construction, I hope our assets are operating portfolio. So, there is limited activity happening over there and it's an annuity contract. So, there are limited activity happening over there. So, the growth driver remains new assets, and EnerGrid remains the engine for us to acquire more operating assets.

Pratik Kothari: No, sir, actually, my question was earlier we used to get these assets from other asset owners, whoever else was looking to sell in the market, the one which is already in operation for a while. So do you see any activity happening in there? Or that has kind of stabilized and now this might be the route for us to go ahead?

Harsh Shah: See, I think there are always M&A activity happening, okay? These activities result in to signing. That's when we can announce that we have done something. But -- so I would rather look at it that the M&A activity can always happen, but the control is not in our hand. And so we have two people in the decision-making.

So we had to wait and bid for the right opportunity. So I would rather look at it as these are two engines. One is a normal M&A and the second is when we acquire a mix of projects and executes, which we acquired. So it's a new -- I would say it's a dual-engine aircraft. When you figure out which one fires first and more when we work on them.

Moderator: We'll take our next question from the line of Tanveer, an Independent Investor.

Tanveer: Okay. So I just wanted to know, Harsh, when are we -- in terms of including as a part of index. I know it's been spoken about a lot since a long while now. I just want to understand what is the hesitation from, SEBI's point of view or any regulator's point of view. And actually, I've written to SEBI on all these matters. So, I just want to understand where we are in terms of that, because I know there was some talk about including REIT and InvIT as a part of, you know, frontline indices. Any idea where we are on that?

Harsh Shah: No, I mean, thanks for writing to SEBI, and we are pretty keen that this happens, and we believe that's the right thing to do. However, there are many decision makers, there is SEBI say, there is

AMFI, there are mutual funds, there are exchanges. So there are many stakeholders of this problem. And there are -- there used to be a variety of issues holding it up.

One of the issues was that InvITs and REITs had a differential tax treatment in terms of holding period. And therefore, for funds of funds, it caused tax issue to invest into index in which there is one constituent having a different holding period for tax. So, it throws some issues. Last year, that was removed that and -- brought everything at par, which is great. So, one issue is resolved.

There are other issues with respect to liquidity, tracking error, how mutual fund will do it. and associated impacts which, at this point in time, all the stakeholders, Bharat InvITs Association, Indian REITs Association is pursuing it, acting with all stakeholders. We are more at the receiving end. So, we are waiting for it, but there is still –activity happening at this point. And so, write to SEBI, to Exchanges, I think the more the regulators will be keen to make a decision, I would think.

Tanveer: Yes, because the regulator has been talking about this -- about the potential growth in REIT and InvITs in India. But there's -- I mean this inclusion, hasn't already happened. So I just got -- do you have any idea, ballpark if it will be a year, 2 years, anything?

Harsh Shah: No, no, I don't know. Idea only it will happen or not. Eventually, it's a decision of regulators. So, I can't give a timeline to that. I would want it to happen yesterday. But it's not in my hand. It is authority of regulator that operates. And obviously, as I said, we are making representations. Bharat InvITs Association is making the presentation Indian REITs Association is making it.

Tanveer: So you all are having active conversations, maybe quarterly or bi-annually on this matter? Is that correct?

Harsh Shah: Yes. I mean, it's not a frequency. We write to then we meet them. We explain them and ad-hoc meetings keeps getting conducted. So, we are trying. But as I said, outcome is not in our hand. Outcome is the decision-making of the regulators. So, we've got to wait for that.

Moderator: We'll take our next question from the line of Krishna Kumar Nalamwar, an Individual Investor.

Krishna Nalamwar: I have been an investor in IndiGrid InvIT since its inception. And I am pleased with the returns I have received to date. As I plan for the future, I would like to kindly request an estimate of the total expected distribution per unit for next 25 years based on the current portfolio. I fully appreciate that providing such an estimate is inherently challenging, particularly given the dynamic nature of various influencing factors such as interest rates, government policies, technological advancements, physical performance, etcetera.

These elements are subject to change and are difficult to predict with certainty. While I understand the complexities involved in such projections. I would be grateful for any conservative estimates or insights you may be able to provide considering the existing portfolio?

Harsh Shah: Thank you, Krishnaji, for remaining an investor of IndiGrid for such a long time. See, as you rightly put, it is very difficult for us to project as a guidance for 25 years. However, we have enough disclosures for you to make it. Our valuation reports which are available for each asset is -- provides you the EBITDA flow, revenue EBITDA flow for 25 -- not 25, 35 years also, right, in our life.

It provides a full cash flow revenue generation. If you or somebody from your adviser can make a basic financial model, based on that and other finance cost, interest costs, we'll be able to reach a very good estimate. As management for us to commit anything beyond which is publicly disclosed in the right format is very difficult.

But the independent valuer works with us and closes all operating and financial details in the valuation report, which allows you to build the same. So I would recommend doing that because that information is already available. But the difference is the information is there. What we cannot share is interest rate, leverage, tax.

That, we are not allowed to share. But we already shared all the operating assumptions, availability, generation, everything publicly. So, you can very well download that and apply some prudent measures of interest rate to come to that conclusion. I think that's more appropriate. Beyond that, we are not authorized to share.

Krishna Nalamwar: I'm senior citizen. So, a substantial part of my retirement corpus is invested in this InvIT. So should I be expected around INR400 for next 25 years?

Harsh Shah: A sizable amount of corpus of mine is also invested in IndiGrid. But I don't think I can answer that saying what we can expect. It is an InvIT, it's not a bond. So, I cannot answer that. I'm sorry. But as I can say, even a substantial part of my investment is also in IndiGrid. So, I think that's an easier way to answer that.

Moderator: We'll move on to the next question from the line of Ketan Jain from Avendus Spark. Please go ahead.

Ketan Jain: I just had a follow-up, sir, on the battery project of NVVN. What capex you mentioned that -- is that project eligible for VGF funding? And does it include the VGF funding?

Harsh Shah: The project is eligible for VGF funding. I am not able to comment right now exactly how much VGF is included in that. That's too fine a detail but the capex is including the VGF funding, yes.

Ketan Jain: Yes. So any VGF you get will reduce -- I mean, will be a repayment of our capex, right? Like I think they will fund you. Is that excluding the INR800 crores?

Harsh Shah: No. That's what I'm saying. I don't know exactly whether the INR800 crores is net of it or it will be after. I need to check that. It's a capex number after all, yes.

Ketan Jain: Okay. So anyone who wins the VGF tender is -- will certainly get a VGF? That's right understanding, right?

Harsh Shah: Yes. There are obviously parameters of your performance -- VGF on day 1 -- and years, right? The first year milestones, second year milestone, etc. So you need to -- it's like a hybrid annuity, right? It's not like you get into commission and you get it back.

Moderator: We'll take our next question from the line of Sachin Jog, Retail Investor. Please go ahead.

Sachin Jog: Like the previous speaker, I am also a long-term investor and have been invested with IndiGrid for a long, long time. And I'm very happy with the returns that have been delivered until date. Thank you for the performance of the IndiGrid until date, and congratulations again on a very good quarterly results?

While it may sound repetitive my question is around the KKR holding falling to 1%. Does it raise any concerns of conflict of interest because KKR does hold 100% in the investment manager, but has a very small holding now in the trust, as such?

Harsh Shah: Yes. I think you have the right question. Thank you for being a long-term investor. I would give you a slightly different context both from a regulatory and practical aspects when you invest in a mutual fund, right, any mutual fund. Investment from the sponsor of the mutual fund is almost zero, right, in any of the schemes that you invest in.

But we invest in the mutual fund because we know that the investment manager or the asset management company has the capability to run that business, as the capability and the governance framework to run that business well in governance in the right way and there is an oversight of regulator on the investment manager, which is the AMC.

So if they are doing anything wrong, there will be immediate action from the regulator, right? That's philosophy because of its mutual fund industry work, right? There's as an AMC which invests for the mutual fund, right? And the mutual fund industry today has over INR30 lakh crores of assets, right?

But out of INR30 lakh crores, how much is a mutual fund themselves -- the AMC on, it would not be 1% also right? So it is similar to that. The InvIT are the fund, the investment manager is the AMC, Asset Management Company.

And why do -- in which other asset management company run the business? Because it is a knowledge-based business, where you have the knowledge of investment management business, running the business. So it is entirely run by professionals who -- and the independent boards and the governance framework of SEBI.

So there is incentives for doing right things. So we earn more fee if you keep doing the right things and grow the reputation. And if you do wrong thing, then we get fired, right? Because SEBI can fire us, unit holders can change the investment manager. There is adequate incentives and disincentives in this model to work for.

And to answer your earlier question, the same way I answered earlier, KKR was not the sponsor. KKR Fund was a sponsor, in which KKR was not the majority investor. Other investors are investing in the fund, right? Like KKR-owned investment manager, is managing in it. KKR also manage other global funds who were the sponsor.

And those are the funds who have sold, not KKR balance sheet. KKR balance sheet remains invested in the manager. And therefore, the business has not changed. And therefore, you don't see any worry about governance or conflict of interest just because the stake has reduced.

Earlier also, KKR Fund owned 23%. Out of that fund, KKR was not a material investor in the fund itself, right? So it is a global business which is run on the governance and the trust and skill of asset management, and that's what drives the business.

Sachin Jog: Sir, so thank you for the reply. But is KKR going to make more now through fees as an investment manager than through the DPUs that you pay out? And in that context, having 2 members of KKR on the Board, what is the point in terms of corporate governance?

Harsh Shah: No, I think it's a very good thing. See, if KKR wants to change the fees of investment managers than before -- they were charging the same fees before, they're charging the same fees now. If they want to change, we'll have to come for unit holder voting, right? It's not that KKR can decide how much fees we want to charge.

Second, I would say KKR’s presence on the Board of IIML is a great positive for IndiGrid, because KKR is not presenting over here the presence to make more money out of this; KKR Board members are there as global experts on money management and ensuring that the governance framework is implemented, right?

As they do for other trillions of dollars they manage, right, sorry -- billions of dollars. They have overall globally, $300 billion of money that KKR manages, right? And we've integrated $3 billion. It's 1% of the overall global AUM. So KKR expertise is a great help to IndiGrid and investment manager.

And I would say it is taken positively by institutional investors, retail investors, credit rating agencies, debt investors, everyone. So I would rather say it's a great positive. And the amount of fee they earn is anyway is very small, right? But I don't think that's sufficient to really make people change their stance. There is a much bigger stake of reputation in global business for KKR to manage.

Sachin Jog: So is there any other listed or unlisted InvIT that has such kind of a structure, where the miniscule percentage holding in the InvIT aspect or the REIT and total management, 100% holding in the IM. Are you aware of that? Because I have not seen it in the other InvIT. Are we unique in that sense?

Harsh Shah: No, I don't know, honestly, I have to study. But honestly, every InvIT is different. We have a track record of 7 years, 8 years now. No other InvIT has a track record of 8 years now. Maybe one InvIT has other than us, but -- I don't think they are comparable, right? Because eventually, one got to look at not just the shareholding, but also the track record, the business, and delivery performance, all of it put together. But again, having said so, I have not studied it. So difficult for me to answer what other InvITs are.

Sachin Jog: Whatever I did try to find out as the retail investor best can. I honestly, at least in the listed environment, I did not find any such structure. And that is why this KKR stake falling was a bit of a concern. But I think...

Harsh Shah: Why do we have to compare percentage of shareholding in different InvIT? How is it relevant?

Sachin Jog: No, the shareholding of the investment manager versus the shareholding that the InvIT...

Harsh Shah: I understand. But how is the relevant.

Sachin Jog: It is skin in the game?

Harsh Shah: Skin in the game is not important over here, but once you have delivered a 7, 8-year performance and especially if you talk about skin in the game, therefore, it's important to understand that there are different unit holders. If Esoteric who is the current sponsor was unit holder of IndiGrid, Esoteric itself is not KKR. Behind Esoteric, there are other LPs, which are not KKR.

So by that logic, even 6 months ago, KKR has not invested here, they are not investors today, right? And it's their fund, which is the investor. So you've got to understand that level of detail to understand the skin in the game. Just looking at percentages superficially will not give you the full picture.

Sachin Jog: So as a retail investor, I'm hopefully getting that assurance from the management that there is nothing to worry in this 1%?

Sachin Jog: Okay. So again, the next question is why are we holding such a large reserve of payout? It is close to over INR6 now. So why is it that we are holding such a large reserve?

Harsh Shah: Okay. No, I think a good -- very good question. I think our business, as I said, is of conservatism, predictability. And our principle is that come what may, we have to meet our predictions and predictability -- predictable distribution. So INR6 is 1.5 quarter worth of distribution, right?

We -- just 4 years ago in COVID, quarter 1 of March '20 -- financial year '21, there were zero cash flows, right, because nobody went to office. But IndiGrid still paid the distribution. How do you think we paid the distribution, right? Because we saved distribution from earlier distribution and kept the cushion of anything going wrong in the business, up or down that can happen in the business. We should have ability to meet our obligations to our unit holders. And that's very simple, right.

We want to keep a quarter, 1.5 quarters of distribution. The world is volatile. Capital markets are volatile. We have seen COVID. A variety of things can happen. So having a 1.5 quarter of distribution is, in my mind, the prudent practice and our Board's mind is prudent practice. So that's why we are continuing with it, honestly. Right? We don't want a shock. We want to be able to deliver to you and the other unitholders in the most volatile scenarios also.

Sachin Jog: Okay. So I think in some previous calls, you had mentioned very clearly that a 1 quarter DPU or something that you would want to retain. So we are INR2 extra from that. So can we expect maybe a payout extra in the next quarter?

Harsh Shah: No. We do not believe in bonus payouts. We believe in predictable payouts and guidance on that. So we don't usually do bonus payout because it does not help anyone. Second is, there is a little bit of additional NDCF that we have gathered because this year's collection has been more than what we expect, okay? More than 100% actually in 9 months, which is rare, but one got to be careful that when you receive more than 100%, that means in the next quarter or next year, we'll receive less than 100%, right?

So the INR2 will be used over there, then, right, because if you have billed for INR 100, then you cannot get extra. If you gotten 105 this time then that means you will get 95 in the next quarter. Then you will be able to use it. So you've got to be ready for those quarter-on-quarter movement. So we don't think that this is a long-term strategy that we'll have 1.5 quarter, 2 quarter, 3 quarter distribution.

But on the other hand, we have -- our job is to ensure balancing risk versus predictability. So we always go for predictability. And if at all, we are increasing the distribution, we increase the distribution for the entire year and that we usually do in the quarter 4 of the year.

Sachin Jog: Okay. So with such a strong reserve, that means can you then safely assume that the 3% to 6% incremental DPU, we can expect it in the next year?

Harsh Shah: That has to be your assumption, sir. We cannot comment on that pre-quarter 4 results.

Sachin Jog: Because we are holding a large reserves of DPU and you are saying that it is the predictability. So if it is predictability, then logically we can expect that, right? As a retail investor...

Harsh Shah: Sir, it is your assumption and expectation. As management, we cannot commit on the future payout.

Moderator: We'll take our last question from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: So just one question. So now I think we are allowed to go up to 10% on the under-construction assets. So currently, I see that AUM is very small, but now you're beginning to get into all these new things like EnerGrid, etcetera. So how do you envisage -- this is something -- unlike acquisition, this is a bit more under your control. So given the market opportunities, how do you envisage this percentage going up?

Harsh Shah: See, it again depends on how much bids we win. But as I said, to EnerGrid, we will contribute $100 million, which is around INR850 crores of capital in next 3 years. Whether it gets contributed, whether it's INR600 crores, INR400 crores or INR850 crores depends on how much we win. That's not in our hands. But yes, the commitment today is $100 million, which is around INR850 crores.

Sarvesh Gupta: No. Apart from EnerGrid, given that you might be having some sense of the opportunities in this space, do we expect this to reach to the maximum possible limit, which is 10%?

Harsh Shah: So with EnerGrid during all incremental development at EnerGrid. So whatever we will do, we'll do in EnerGrid, that's a preference, so that's astart. So we are not doing half of it here and half of it in EnerGrid separately, right? So our goal is to do all of it EnerGrid in one go. So at this point in time, our commitment is to cap at $100 million, depending on how much that gets used and built, you will see the next tranche.

Sarvesh Gupta: Okay. And there are three partners. So I think the BII, they are contributing the capital. Techno will do EPC and then gain the EPC margin. And you will take all these assets under their book -- under your book after the assets are operationalized. Is that the right assumption?

Harsh Shah: That's correct. But Techno is only for 2 projects, which is Dhule and Ishanagar. Techno is not the only contractor at -- in EnerGrid. They can be for future projects. But the currently Techno is unit and equity holder for only 2 projects, which is Ishanagar and Dhule.

Sarvesh Gupta: Okay. Understood. And what is there for BII and Norfund because now these assets will also get released after a while to you, to IndiGrid. So what are they for apart from the funding for the under-construction assets? What are they gaining out of this?

Harsh Shah: They are financial and multilateral institutions. Their investment philosophy is to invest in developing nations. So they are investing in these projects to develop capacity in India. They will make returns on these projects, too. So they are a financial investor. So that's what we are doing here.

Sarvesh Gupta: Okay. And finally, on the under construction assets. So when you calculate your NAV, they are not contributing anything, but there will be a drag of debt against these investments. So does it negatively impact your NAV being in the under construction assets?

Harsh Shah: They do not because we do the NAV or the valuation of under construction projects as cost, when we are investing that. So it is cancelling the debt invested in that, it is not a drag.

Sarvesh Gupta: Okay, understood. All the best for your coming quarter.

Harsh Shah: Thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to management for closing comments. Over to you.

Harsh Shah: Yes. Thank you very much for all the investors who joined the call today. And thank you for all the support for owning IndiGrid units as well as understanding our business well and asking the questions every quarter to understand the business model even better. So we welcome these questions. We believe our role is to explain our business to our unitholders and others. So these are the calls in which we have the opportunity to talk and describe our business. So we really look forward to this every quarter.

And I think -- we believe this is a very exciting time to be in this business and hope that we will -- hope as well as we work towards contributing the predictable growth that we have been able to deliver over the last 8 years. And looking forward for the next quarterly call with all of you. Thank you.

Moderator: Thank you. On behalf of Nuvama Institutional Equities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.