



## “Adani Green Energy Limited Q2 FY2020 Earnings Conference Call”

November 13, 2019



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**Moderator:** Ladies and gentlemen, good day and welcome to the Adani Green Energy Limited Q2 FY2020 Earnings Conference Call. We have with us on the call today Mr. Jayant Parimal, CEO, Mr. Ashish Garg, CFO, Mr. Raj Kumar Jain, Head, Business Development, Mr. Ashwin Bajaj, Head, Investor Relations of Adani Energy Companies, and Mr. Udayan Sharma, Investor Relations for Adani Green Energy Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jayant Parimal. Thank you, and over to you Sir!

**Jayant Parimal:** Good evening. Thank you for joining us today on the concall to discuss our Q2 and H1 results for FY2019-2020.

As you are aware, Adani Green Energy Limited is India’s only major listed, pure play for renewable energy company. We have a total contracted portfolio of 5.3 GW<sub>ac</sub> of which 2.4 GW<sub>ac</sub> is operational. During H1, we have commissioned 450 MW. In the balance three to four month’s time we are expecting to commission another 350 MW. Based on our operating solar capacity of 2.1 GW<sub>ac</sub> and 2.8 GW<sub>dc</sub>, we are one of the top three solar power developers worldwide, ex-China as per BNEF numbers. Our operational capacities are 100% tied up in fixed-tariff long term PPA, 65% of which is tied-up with the Government of India entities like NTPC & SECI. We have strong operational performance. We now regularly, at the end of the quarter within 10 days announce our operational performance, which has been already uploaded on our website.

Now coming back to financial highlights. If we take Q2 of FY2020, our total Revenue is Rs.688 Crores up 53% Y-o-Y and revenue from power generation is Rs.462 Crores. The balance is supplies from AGEL to its SPVs, so our Q2 revenue from power generation is Rs.462 Crores, which is up 3% Y-o-Y. Our EBITDA from power sales is Rs.422 Crores, up 5% Y-o-Y. The EBITDA margin is healthy, in line with our expectation, at 89%. Profit for the period is Rs.102 Crores versus loss of Rs.188 Crores during the comparable quarter last year. Our cash profit is Rs.207 Crores up 20% Y-o-Y. If you take H1 our total revenues is Rs.1,349 Crores or up 46% and revenue from power generation is Rs.1,016 Crores up 10% Y-o-Y. EBITDA of H1 is Rs.918 Crores up 9% Y-o-Y and similarly profit for the H1 is Rs.5 Crores versus loss of Rs.262 Crores Y-o-Y.



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On the accounting side and tax side, the highlight is that we have decided to switch to SLM depreciation compared to WDV depreciation, which we used to do earlier. As a result, we have certain reduction in our depreciation costs in this quarter and H1 compared to the same period last year. Other than the one-time expenses, our PBT for H1 is Rs.200 odd Crores, so this is our financial highlights.

On the operations highlights, we have already discussed capacity utilization factor for Q2 is 20.13% versus 20.08% on the solar side Y-o-Y. Plant availability is 99.55%, which is similar to what we had achieved earlier and our average realization on solar side is Rs.4.97 per KWh compared to slightly higher numbers on a similar quarter last year. The reason being new PPA's are kicking in, which are at lower cost.

On the wind side, as of now we have 272 MW of operational capacity of which 150 MW is what we have acquired from an OEM, which is under acquisition subject to the PPA terms and conditions, so they do not get consolidated. Other than that, we have 122 MWs of capacity of which 72 MW was operational as on September 30, 2019 and the balance 50 MW got commissioned in the month of October. In H1 FY2020 our capacity utilization factor on wind side was 33.52% versus 30.39% Y-o-Y and in Q2 FY2020 our wind capacity utilization factor is 31.21% versus 30.96% in the comparable quarter last year. This is in general our financial and operational performance.

AGEL as a group and company is committed to adopt a sustainable approach towards all ESG aspects. For Q2 FY2020, AGEL plants have operated 9.63 million safe hours with zero LTI. We have contributed to greener environment by reducing 3.57 million tonnes of CO2 equivalent. We have also published for the first time our sustainability report, which is uploaded on our website and we have become a signatory UNGC

We also believe strongly in continuous investment of capabilities of our employees. We compulsorily train our employees based in HO and site on the various technical safety and behavioral aspects. We have given 1417 man-days of training during the Q2 of FY2020. In addition to that, our attrition numbers are also healthy and these are all single digit numbers, so we take good care of our employees and this reflects into a very low attrition. So with this opening remark, our CFO is going to tell you a few things about our performance.

**Ashish Garg:**

Good afternoon ladies and gentlemen. On the financial side for the Q2 FY2020, overall revenue was up by 53% Rs.688 Crores, but what is relevant is basically revenue from



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power generation. The rest is with respect to, as Mr. Parimal had earlier mentioned, coming from sale of wind and solar equipment to some of our subsidiary. The revenue was Rs.462 Crores, which was up by 3% compared to same quarter last year. EBITDA was Rs.422 Crores up by 5% Y-o-Y and EBITDA margin was 89% for the current quarter. Our profit for the period was Rs.102 Crores versus a loss of Rs.188 Crores and this was primarily on account of change in the method of the depreciation, which we have adopted from April 1, 2019 on a SLM basis compared to the WDV method, which we had carried out till Q1 FY2020. The rate of depreciation earlier was 9.3% in the WDV method and currently we have under SLM, 3.16% rate of depreciation, which is the assets are depreciated over a life of 30 years. This has also resulted in a remeasurement of the deferred tax asset and resulted in a one-time additional charge of Rs.68 Crores on the balance, which was outstanding as on March 2019 and as you see in the results close to about Rs.99 Crores of hit on the P&L in the current quarter. Going forward it will be based on a measurement of the deferred tax liability as the rate of depreciation in the tax is higher than the rate of depreciation in the books of accounts. Cash profit for the current quarter was Rs.207 Crores, which was up by 20% Y-o-Y. On the overall portfolio of about 2,420 MW, which is now operational, our completed cost is Rs.14,800 Crores and for the balance under-construction capacity of 2,870 MW our expected cost of completion is about Rs.15,262 Crores.

Our EBITDA estimation at the plant level on the capacity which is currently operational, at a P50 level on solar and P75 level on wind, we expect Rs.2,467 Crores of EBITDA, which gives us a very healthy 6 times Capex-to-EBITDA metrics, which we have highlighted earlier and on the under construction portfolio, an EBITDA of close to Rs.2,370 Crores implying a Capex to EBITDA of 6.44 times. Thus an overall Capex of Rs.30,000 Crores, this will give somewhere close to 6.2 times of Capex to EBITDA. At these levels, we believe that are able to earn a very healthy equity return of close to 18% to 20% on the portfolio that we have currently in place. A highlight also was during the current quarter in October, we had done a restricted group bond, which is RG2 as we call of \$362.5 million, which was the first investment grade bond deal out of India in the renewable sector. The bond was rated Baa3 by Moody's and BBB- by both S&P and Fitch. This was the first amortizing bond structure of 20 years out of India, which was basically in line with the PPA tenure. The bond received very strong subscription from very good Marquee Investors across US, Europe and Asia. While the bond was issued at 4.625% coupon, the bond is trading currently at upwards of 102 implying a yield of about 4.4%. With this, we believe that we have established a very competitive cost of financing for the portfolio going forward. On a fully hedged basis, this would translate to a cost of

about 9.5% today. With this, I would like to end the presentation and we can invite the questions. Thank you.

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

**Mohit Kumar:** Good evening Sir. Sir on the operational front I believe the total operational capacity is at the end of Q2 FY2020 was 2020 MW, am I right?

**Jayant Parimal:** That is correct.

**Mohit Kumar:** You added another 400 MW in October?

**Jayant Parimal:** 450 MW till now, so 2020 included I believe 50 MW which got commissioned just immediately after March, so in annual report we had mentioned that, but technically speaking in H1 we have added 450 MW.

**Mohit Kumar:** In H1 or YTD, YTD right?

**Jayant Parimal:** YTD sorry.

**Mohit Kumar:** Most probably the SECI wind project or what is breakup of 450 MW?

**Jayant Parimal:** 200 MW is MSEDCL solar project, 50 MW was UP Jhansi, which we had commissioned long back, so 200 plus 50, 250 MW is state PPA and the balance 200 MW is SECI Wind Projects of which 150 MW is those we have acquired from Inox, the OEM and 50 MW was our own SECI 1 PPA, which we commissioned.

**Mohit Kumar:** Sir anything on the SECI 2, SECI 3, SECI 4, SECI 5 are we asking for extension of time line?

**Jayant Parimal:** Yes we have sought and they have granted. In several cases, they have already granted and we expect similar action in almost all the cases because of transmission and land issues. As far as Adani SECI 2 is concerned, so we are trying to commission in this month. Hopefully, by November end we will commission. Then there is one MSEDCL 75 MW wind project, which we are trying to commission by December end or first week of January. Then we are trying to commission 100 MW of incremental wind either SECI 3 or SECI 4 depending on whichever is getting ready and then we are also attempting 150



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MW solar SECI project and another 50 MW solar project, but this is how we are trying to attempt 350 MW of capacity to be commissioned before March 2020, so that the total addition in FY2019-2020 will be approximately 800 MW, so this is what we are trying to do.

**Mohit Kumar:**

What is the number we are looking for FY2021 and the breakup?

**Jayant Parimal:**

Now in FY2021, we have right now as we speak balance 2500 MW or 2600 MW left and out of that at least more than 50% of the capacity may be 1500 MW of capacity we will try to commission in the FY2021.

**Mohit Kumar:**

How are our hybrid projects coming up? What is the kind of schedule we are looking at for hybrid?

**Jayant Parimal:**

As we speak, we have two hybrid projects one is 390 MW and another is 600 MW, so 390 MW from PPA side there is a deadline of March 2021, but you will appreciate they are all CTU connected projects, so we have to also match the timeline of CTU. The CTU has just now been awarded to PGCIL itself and their timeline is December 2020 on paper, so let us hope that they are able to complete by December 2020 then definitely we will complete 390 MW hybrid before March 2021. Then another 600 MW hybrid may partially spill to 2022.

**Mohit Kumar:**

Sir we have seen the participation in SECI the further rounds are pretty low? Is there are specific reason why are the developers not comfortable with the current ceiling or is it the transmission, evacuation? These people do not have enough comfort to bid on those levels.

**Jayant Parimal:**

Both might be correct. Because unfortunately what happened, the whole market is driven by expectation. So perhaps some segment of developers they thought that the prices will continuously fall both in case of solar as well as wind, but somehow all of us realized that some of these price numbers may not be sustainable in the long run. As a result, you find that the bid prices are slightly going up, inching up and because very tight caps are still imposed so you are finding a little less participation, but going forward now the government is also realizing that unnecessarily imposing unrealistic caps will not work, so they have started easing it, so hopefully going forward there will be more and more participation. I agree at least in the case of wind, the uncertainty in case of allocation of land in Gujarat, etc., did add to the woes of the existing developers, who were finding it difficult to complete the projects in time. And similarly in Central Transmission Utility,



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the timelines do get affected and it is a chicken and egg kind of a situation who comes first whether CTU comes first or the plant comes first and at times penalties imposed by CTU is asymmetric. If I come first and CTU comes late, they hardly pay any penalty. It is a very small number and if they come first, we go later then the penalties are very high so there is some regulations issues also there.

**Mohit Kumar:**

Understood Sir. Thank you Sir. That is it from my side. Thank you.

**Moderator:**

Thank you. The next question is from the line of Rahul Modi from ICICI Securities. Please go ahead.

**Rahul Modi:**

Good evening Sir and congratulations for good numbers. Sir just a couple of questions on our receivable position, how uncomfortable as the management are you currently in which states because we have good exposure in Tamil Nadu as well so how are things panning out there?

**Jayant Parimal:**

Now coming back to receivables as on September 30, 2019, we had a total overdue receivable of Rs.598 Crores of which Rs.556 Crores were TANGEDCO, which is Tamil Nadu. Other than Tamil Nadu we had only Rs.42 Crores of overdue receivables, so problem in our case at least the restricted to TANGEDCO, but they have a method, they pay, but they pay very late and at times it goes between 8 to 10 months and our monthly billing is anything between Rs.60 Crores to Rs.55 Crores. This is why you are seeing a 10 month outstanding there, but other than that on NTPC side we are not facing any issues, SECI side we are not facing any issues. Even in the other Discoms, we are not facing any significant issues other than small numbers in one or two HESCOM Discom in Karnataka, we are not facing any issues. As far as Andhra, we do not have any exposure, so that Andhra problem we are not facing. So this is our receivables position and as of now our receivables position is good. We have now executed a 200 MW MSEDCL project, although it is not covered in this quarter or H1 the bill was paid after H1, but they have paid in time with 1% discount and they have also given us an LC and we have received LC in 36% of cases. SECI has assured us that they will give LC that is around 21% and 43% PPAs we have not received LC, which is predominantly TANGEDCO.

**Rahul Modi:**

Sir we have heard some issues in UP also cropping up in terms of reopening of PPAs and stuff may be just in talks and papers right now, but what is your view on this kind of development? Is the dispensation thinking of some measures to curb this from other DISCOMs and states as well?



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**Jayant Parimal:** First of all, we have only one PPA with state DISCOM, but there they are paying us in time with 2% discounts, so we are not facing any issue nor have we heard of any reopening of the PPA. If at all somebody is talking, it is highly unfortunate, but anyway you are aware that the Government of India is fairly committed and they have given advice to all of them that rule of law and contract sanctity has to be maintained and the law is taking its own course and the regulatory bodies are trying to uphold the whole thing, but such actions on part of DISCOMS is highly unfortunate. I am not aware of UP. At least our PPAs, we have not heard of anything and they are being paid in time and with 2% discount.

**Rahul Modi:** Sir couple of more questions that I had, we have seen that even one of the largest players in the renewable space in India was looking to sell out some asset, so what is the opportunity like that you see from an organic growth over the next two years seeing the realistic bids coming out and the inorganic growth if any?

**Jayant Parimal:** As far as we are concerned, we are more focused towards organic growth. Other than this Essel announcement, which we have made, we have not gone for any inorganic growth and even in the toughest time we have been able to execute project at 6.5 times Capex to EBITDA. Now that the things are slightly improving, we expect that we will be able to build assets even more competitively, so in that scenario if somebody is offering far inferior project in inorganic so we are not interested. It is comparable to whatever we are doing plus some margins perhaps we can look at that otherwise it becomes very difficult. We are not in the business of acquiring a very large asset. These things are done only on the opportunistic basis if it is fitting our criteria, if it has a good reasonable PPA, etc., etc., then only we are going for inorganic. Otherwise there is no dearth of brand new greenfield PPAs at the Capex to EBITDA of less than 6.5x or approaching 6.

**Rahul Modi:** Thank you so much and all the best.

**Moderator:** Thank you. The next question is from the line of Dhruv Muchal from HDFC Mutual Fund. Please go ahead.

**Dhruv Muchal:** Thank you. Sir you mentioned 2% discount in UP and Tamil Nadu?

**Jayant Parimal:** Not Tamil Nadu, it's UP.

**Dhruv Muchal:** So it is the normal discount or it is for the prepayment criteria?





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- Jayant Parimal:** No it is a standard in PPA itself there is a prompt payment discount. All PPAs have this, if they pay you within 30 days or 10 days there are norms written there, so as per that they are paying, so they are paying before time and this is why they are asking for discount, which they are legitimately entitled to.
- Dhruv Muchal:** Got it and Sir secondly the restricted group bond you said the hedge cost is about 9.5%? Now is the hedge for 20 years or it is about five or seven years?
- Jayant Parimal:** Now you are talking about RG2, so RG2 our basic coupon rate is 4.625% and then we have to hedge, so we have promised to the rating agencies because 20 year hedge is not generally available or it might be very expensive so we have agreed with the rating agency for a five year rollover kind of a hedging, so this hedge cost, which we have talked to you is about the five year rolling hedge and the coupons are hedged on an annual basis.
- Dhruv Muchal:** Sir how is the risk then after five years because say for example the currency changes to say whatever say Rs.80 or Rs.85 so are we exposed to that?
- Jayant Parimal:** No. We do not have any exposure as far as the principle is concerned, but on the interest side yes there might be a small exposure, which is little, but you will appreciate that if you see the history of currency, the Indian currency has not depreciated more than 3.5% on an annualized basis, so that impact is hardly anything. So as far as the principle is concerned it is practically fully hedged.
- Dhruv Muchal:** If the principle is hedged for the full 20 years almost full 20 years?
- Jayant Parimal:** No it is not hedge on a rolling basis, but we do not have any impact.
- Ashish Garg:** Let me explain, so what happens at the end of five years, we will roll the hedge. What we basically protected is at the spot level at the time we enter into the hedge. At the end of five years whatever spot is prevailing at that point in time there would be a cash payment or receipt and based on that, that will be rolled over, so we are only looking at some kind of you can say a premium difference at that point in time. I would say that is more an opportunity because if you see historically the premium has been in the range of 2.5% to 5%. Currently we are paying a premium of 4.5% for close to five year hedging, so over a period of time we do expect that actually the premiums might come down, but even if they do not come down as we earlier mentioned on the call, on a fully hedged basis our cost is 9.5%.



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- Dhruv Muchal:** But just to understand it completely after five years say for example currently we have hedged it at 70? After five years, we spot say 75 so the principle for the remaining say 15 years will now have to be paid at 75 if I am not wrong?
- Ashish Garg:** Specifically if you want we are basically accounting for the five year, 4.5%. We are protected or the level should be about 89. Anything below 89, we will receive the cash flow and the new hedge will start at 75.
- Dhruv Muchal:** Got it. Thanks so much.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference back to the management team for closing comments.
- Jayant Parimal:** Thank you gentlemen. As closing comments what we would like to impress upon you is that the bond RG2, which we did, it demonstrates our ability to execute the projects using domestic credit or construction credit and at the end of two years or three years after we have some credible performance, we can go to the US Dollar market, get ourselves rated in investment grade and get very long-term 20 year bond. Even in this bond, at the end of the twentieth year there is still some tail left, so basically a very long term fixed price coupon bonds, which are very competitive in single digit and this throws us a lot of upfront money, which is available to us for doing new projects, etc., So this is the model, which we are trying to take it forward. Going forward as and when we have substantial number of PPAs available with some track record, we will try to throw them in the international market and churn our assets, resize them, use our internal accruals, so as to complete whatever 5.3 GW sort of contracted portfolio, which we have and we keep on bidding for new stuff and as we speak there is a good opportunity to get better price PPAs, which will give us even a better return and we will continue to look at these kind of stuff. For the first time, after changing our depreciation policy, we have started reporting profits, so we hope to maintain similar things in the future as well. Thank you very much to all of you for joining us. Thank you.
- Moderator:** Thank you very much. On behalf of Adani Green Energy Limited that concludes the conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.