"India Grid Trust Q4 FY19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the India Grid Trust Q4 FY19 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode a there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Swarnim Maheshwari from Edelweiss Securities. Thank you and over to you sir.

Swarnim Maheshwari: Thanks Vaibhav. Good evening everyone. Welcome to India Grid Trust Q4 FY19 and FY19 Results call. Mr. Harsh Shah – CEO of India Grid Trust is representing the management on the call. I request Mr. Harsh Shah to open the call with his opening remarks and then we will have a Q&A session. Thanks and over to you Harsh.

Harsh Shah: Thank you Swarnim. Thank you ladies and gentlemen for joining me on the call. This is our 8th quarterly investor call regarding our results as well as an announcement to be made. To start, I will take you through the performance of fourth quarter of FY19, and the material development regarding the QIP, the preference issue that we have recently closed. In the interest of time, I will be quicker on the results and focus more on the preference issue of capital which will allow greater understanding of the rationale and probably leave a little bit more time for question and answer session.

I am on the quarter 4 presentation slide #5-6 which is our IndiGrid vision. We reiterate that our vision is to become the most admired yield vehicle in Asia and it is based on a Rs 30,000 cr AUM which we envisage to be achieved by 2022, delivering a predictable DPU growth and best in class corporate governance. We will also refer to the same vision and how our transaction ties in with this vision in the subsequent presentation.

Going to slide 8 in Q4 FY19 results presentation, our operations, availability were above the norms provided for. We earned maximum incentives possible in our assets. In FY19 we completed our first third party acquisition, acquiring Patran Transmission Company Ltd. from Techno Electric Company Ltd. Since listing ,610 crores of capital have been distributed in the form dividend to investors. In FY19, we distributed Rs. 12 in line with our guidance at beginning of the year which is an increase of 4.6% over annualized FY18 DPU. At a portfolio IRR level, we are on track to achieve a 12% portfolio IRR.

On the next slide 9, are some of the key highlights, our EBITDA is up 15% year-on-year basis. Our availabilities have been above 99.5% for all assets. This quarter we have distributed Rs. 3 DPU as interest. Our rating is affirmed by all 3 rating agencies, ie Crisil, India and ICRA. Our net debt to AUM is at 47% and we have achieved our Rs. 12 guidance for FY19. In the next slide, #10, we can see our operating performance, all our assets are depicted over here starting from BDTCL, JTCL, RTCL to PTCL and all of them have an operating track record of more than 2 years or 3 yearsand achieving maximum incentives. Our FY19 Revenues stood at INR 666.8 crores with an EBITDA of INR 603.6 crores.

Harsh Shah: On page 11 we see that in Q4 FY18, we posted EBITDA of INR 131.6 crores, while in quarter 4 of FY19 we did INR 150.8 crores EBITDA. This is largely on account of full operations of all the acquired assets. On the right side of the chart, we are depicting the distribution that we have paid till now. In total Rs. 21.56 has been distributed to investors, about 610 crores in total. This is the 5th quarter where we have distributed Rs. 3 per unit and we believe we will continue to do so. Our working capital has improved this quarter, with a positive inflow of INR 21 crores. We have paid interest of 54.9 crores in this quarter. And earned interest income of Rs 1.8 crores. We have repaid loan of about 15.6 crores. Overall NDCF generated is 103 crores and we have replenished the reserves by about 17.8 crores which results in 85.1 crores of distribution which is equivalent to Rs. 3 per unit.

Slide #13, nothing has changed versus last quarter. We still having weighted average cost of 8.45%, our rating remains AAA. Our average maturity of debt is around 8 years and the rate is fixed 100%. We don’t have any recent or short-term interest variability coming in our portfolio as of now. In the next slide #14 we talk about our predictable distribution with low volatility and I believe once we look at the beta in comparison to NSE 500 we are at 0.21 which is lower by a big margin than any other indices that one can compare us with.

Slide #15, compares the total return in comparison to our peerssince listing, we compare ourselves with different indices. Considering the recent drop in prices, IndiGrid is priced in at Rs. 82 on the date of this published results and slides. We were at Rs. 82, we were underperforming by about 4% versus G-sec and our comparable bond of REC. And we were also underperforming in comparison to NSE 500 or power grid considering the recent moves which is helping the indices. However, in relation to BSE Infra, BSE Power, NSE Infra we are pretty much at par. The next is about our growth strategy which we have continuously shown over the last 4 quarters. This is the pipeline of assets which we look forward to acquiring from sponsor. Some of them we have already announced that we are acquiring and some of them we are converting from ROFO assets to Framework Assets. We will delve into details on that in the subsequent presentation. The next slide #18 also depicts the IRR which we will cover in the subsequent presentation which we are capturing regarding the preference issue of capital.

I will now take you through the next presentation, specially describing the preference issue of capital. on slide #2 we are reiterating our vision is to become the most admired yield vehicle in Asia and achieve an AUM of 30,000 crores by 2022. We will focus on predictable distribution and ensure that we grow the amount distributed over a period. We will focus on best in class corporate governance while achieving our vision. Our story so far on slide 3 starts with the IPO in June 2017, we had listed with 2 project assets BDTCL and JTCL, subsequent to that we increased the guidance to Rs. 12. We acquired three ROFO assets called RTCL, PKTCL, and MTL from our sponsor Sterlite Power. In August 2018, we acquired our first third party asset called Patran Transmission Company Limited. In September 2018, we listed first AAA rated debentures by InvIT. In April 2019 InvIT regulations were amended for allowing additional leverage upto 70% as long as we maintain a AAA rating, along with reduction of lot size from Rs. 5 lakh to Rs. 1 lakh, which we believe will help in terms of liquidity of the platform. As of May 06, 2019 we have paid about Rs 21.6 DPU which amounts to 610 crores since IPO. This has been our story so far.

In slide #4 the transaction highlights have been summarised. We have raised INR 2514 crores of primary capital through a preference issue. KKR and GIC contributed a total of INR 2060 crores with KKR taking a leading stake of INR 1084 crores, GIC infusing INR 980 crores and other capital market investors including one of the largest existing investors participated in this preference issue. We also signed definitive agreements to acquire INR 11,500 crores of assets from Sterlite Power. KKR, who contributed as the lead investor in this round has also expressed their interest to become the sponsor to India Grid and we look forward for investor approval as well as SEBI approval in making KKR a co-sponsor of India Grid. KKR is also acquiring a majority interest in the investment manager which runs the InvIT and they will co-own the investment manager called Sterlite Investment Managers Limited together with Sterlite Power.

On slide #5, I will just enumerate the key advantages for India Grid and its investors of this transaction. Participation by marquee investors in the preference issue is a testimony that global investors like KKR, GIC and others have shown confidence in subscribing to a large amount of capital in the growth journey of India Grid. We are also capitalizing the platform adequately for next 2 years of growth via acquisition.

The 11,500 crores plus our existing assets will be enough to raise our AUM to INR 17,000 crores, which gets us toa little more than halfway in our journey to the INR 30,000 crores platform. With regards to the acquisition of ROFO assets, while out of INR 11,500 crores of assets about INR 5100 crores of assets we are acquiring in next quarter, around quarter 1, which is NRSS as well as OGPTL. Over and above this INR 5100 crores of acquisition, we have visibility of INR 6500 crores from acquisition of three assets and the framework agreement with Sterlite Power. Two of these assets were under ROFO agreement and one was not. Sterlite Power has shown commitment to sign this framework agreement with IndGrid so that IndiGrid has a visible growth pipeline on these assets. In addition to that, benefits from investment and asset management expertise from KKR and Sterlite Power will accrue for India Grid. KKR is one of the most reputed global investment manager and Sterlite Power on the other hand is one of the leading developers of power transmission asset. We believe that with the skill set of both large sponsors as well as co-managers, India Grid will flourish.

Slide #6 lays out more details around the key aspects of this transaction. We raised INR 2514 crores at INR 83.89 per unit. This is in line with SEBI formula of two weeks average price, we raised at this price when the last trading price was Rs. 82. Bankers to the issue were Citi Bank, Edelweiss, Axis. Edelweiss played a lead role in this transaction and bankers to KKR were E&Y. On the bottom left side of the table, we note that KKR is also planning to acquire controlling interest in the investment manager in tranches, up to 74%. This acquisition will be subject to unitholders approval as well as SEBI approval. KKR also intends to acquire additional 15% from Sterlite Power once they are designated as a sponsor. On the right side are the total value of the assets, a total of INR 5039 crores from NTL and OGPTL combined. Both of them are interstate electric transmission assets. They are fully operational & generating revenue. Framework assets in total add up to about 6500 crores. We will acquire these assets once they are operational, within the 13 months period from COD.

The deal structure on the next slide, slide #7, provides visibility on what is changing and how. We saw that after the primary issue, KKR is owning just about 22.1%, however subsequent to the other transaction of buying out 15% from Sterlite Power, KKR will own about 37%. Further, how our AUM will change is shown in the slide 9. The current 6 assets are shown at 52 billion INR in the left side pre-transaction. Post transaction, the total AUM after acquisition of the immediate NRSS and OGPTL assets plus framework assets will be about INR 17,000 crores. This will enable a significant portfolio expansion for us. From 13 lines and 3,360 ckm,our portfolio will grow to 32 lines and 6,600 ckm. From 3 substations of 7,000 MVA we will move to 10 substations of 15,000 MVA. Our presence will expand from 9 states currently to 16 states. This leads to bigger geographical diversification as well as synergies in terms of overhead cost.

The key operational and financial parameters that will change with this transaction is, right now we have 6 assets pre-transaction, post transaction we will have 11 assets, Our AUM will grow from INR 5200 crores to approximately INR 17000 crores. As of now, our net debt to AUM is 47%, and will remain below 49% after acquisition of NTL and OGPTL. However, once we acquire the other 3 projects, with that our net debt to AUM would reach 67%. We would continue to maintain a AAA rating while doing so. All of these assets are under the interest rate pool which is showcased in the slide. Having a AAA credit rating, all of them have availability linked payment mechanism. Hence no CAPEX, no price risk is involved, and most of them have about 34 to 35 years of terms of TSA pending. The useful life of assets is beyond 50 years and availability track record has been higher than 99%. So, our portfolio in terms of the credit risk as well as quality of assets remains intact.

Slide #10 is about the transaction process. Board of Investment Manager has approved certain decisions including preferential allotment, acquisition of NTL, OGPTL, change in control of investment manager, addition of KKR as a sponsor as well as amendment of ROFO agreement and translating that into a framework agreement. Subsequent to that, we have closed the preference issue of capital of Rs 25.6 billion at the price of INR 83.89. We have issued an AGM notice to investors for voting on all the critical decisions which includes acquisition of NRSS and OGPTL assets, change in control of investment manager in favor of KKR, addition of KKR as the sponsor in amending ROFO agreement to framework agreement. Once the unit holder approval is sought, we will apply to SEBI for inducting KKR as a sponsor as well as change in control of sponsor in favor of KKR, along with change in control of investment manager in favor of KKR. Once the regulatory approvals are taken, we will look for executing all these transactions and conclude them by June 2019 which is quarter 1 of FY20.

In slide #11 we are showcasing the key decisions to be taken at the EGM. Number one, is to approve proposed acquisition of power transmission assets from the sponsor. While the EV is provided in the slide, the rationale as well as details around the projects including valuation reports are on the exchange for investors to review. Item number two, is to approve induction of Esoteric II Pte. Ltd. which is an affiliate to KKR, as a sponsor of India Grid along with Sterlite Power. The details of KKR as well as Esoteric II are also provided in the EGM notice to investors. Item number three is approval of acquisition of the issued,subscribed and paid-up capital of the investment manager for a change in control in favor of KKR by Electron IM Pte. Ltd., another affiliate of KKR.

As part of the transaction, the first 20% has been allotted to KKR's affiliate as on date. A total of 40% will be allotted subsequent to unit holder approval as well as SEBI approval which would bring KKR affiliate to about 60% interest in the InvIT manager and the last 14% would be acquired after 2 years since the time unitholder approval is taken. Item number four, is to approve the amendment of ROFOdeed. This is primarily to convert the ROFO deedto a framework agreement which is far more binding and therefore provides better visibility on GPTL, KTL and NER assets. In the next slide, slide #12, we are showcasing how we are moving at a base price of 100 INR on a step by step basis. Starting on the left, we got listed via IPO with a 3400 crores AUM, 8.6% IRR. We acquired the MRP assets as well as Patran asset to raise the IRR to 10%. We are now acquiring NRSS and OGPTL asset which will increase the IRR from 10% to 10.7% and once we acquire the subsequent framework assets, we would be able to raise the IRR to 12% at Rs. 100. We are using Rs. 100 as benchmark IRR so that we can compare it on a quarter-on-quarter basis. The exact IRR will change based on the trading price and therefore if the trading price is below 100 the IRR will be higher proportionately. Considering the current market price of 86, the IRR would be higher than what is projected.

Slide #13 depicts sustainability of DPU. As you could see on the chart above, DPU from different assets was dropping. However, as per our earlier communication, we plan to acquire different assets to ensure gross DPU remains flat. This transaction allows us to do that. We can provide a predictable DPU of Rs. 12 per year for approx. next 10 years. That is something which we can achieve by this transaction. We will continue to acquire other assets to look for growth, however, the drop in DPU is being pushed by 10 years.

On slide #14 is an introduction to KKR, which is a leading global investment firm with over 43 years of experience and $200 billion of assets under management. They have offices in 21 cities and 16 countries and there are over 430 investment professionals. We look forward to benefit from their expertise. Infrastructure is a core focus for KKR with over 30 investments and $12.6 billion of AUM across the world. This investment is the first investment by Asia Pac infrastructure team and it is commendable for IndiGrid that we are the first investment of Asia Pac for KKR. Sterlite Power's introduction in the last slide shows it is a leading developer of power transmission assets and would continue to bid for future assets which would result in a good pipeline for IndiGrid as well. I now request to open the call for questions from investors.

Moderator: Sure. We will now begin the question and answer session. We have the first question from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Sir, my question is regarding the new assets being acquired at a much higher rate. what is the mathematics behind it, given that sponsor would like to have lower rate and we have got 11% and 12% rate for the two asset and three assets respectively?

Harsh Shah: Sorry. Can you repeat your question, Mohit? The question is about the two assets which we were acquiring now, NRSS and OGPTL?

Mohit Kumar: Yes. How the rates are higher and what is the mathematics behind it? I am looking for the terminal value.

Harsh Shah: If you look at the valuation report, both NTL and OGPTL are at about 6% and 8% discount to their fair market value. The fair market value is done with respect to an FCFF methodology and we are using the same methodology to value our own assets in the NAV. Hence, I don't think we have substantially under paid for these assets. we at IndiGrid need to be competitive in marketplace to acquire assets. So I think we have paid at a slight discount to the fair market value of these assets and considering the size of these transaction and the visibility that the sponsor gets, we believe we could reach the commercial agreement with the sponsor.

Now coming to the second question on terminal value, we believe these are perpetual contracts and therefore there will be a terminal value in some form. As showcased in the valuation report, right now we have assumed the terminal value in the valuation report only as an extension of EBITDA of the last year for another 15 years. We believe these assets deserve much better terminal value considering that these assets are almost monopolistic in a particular area, and over a period of time the cost of replacement for these assets increase exponentially on account of right of way, on account of steel prices, aluminum prices, labor cost and so on, We believe that the real replacement value should be much higher than what we have assumed.

Mohit Kumar: Understood. I will go through the valuation report. Sir, my second question is are we saying that all these assets will require no further issue of units and the leverage can go up to 70%, so we can acquire all the assets with debt, am I right?

Harsh Shah: Yes, you are right. Now leverage is going up to 67% while acquiring these assets. However, the final numbers may change depending on interest rate, fair market value on that day along with other factors. But yes, for acquiring these sets of assets we do not need to raise any more equity.

Mohit Kumar: Just one last question sir. SEBI has allowed us to reduce the lot size, So have we planned to reduce the size?

Harsh Shah: trading lot size will change in a way that the revised trading lot will be valued at approximately Rs 1 lakh. For example, right now we are trading at 5103 units in a lot. We would be reducing that over next 6 months in such a way that it would translate into one lakh as a trading lot value. We are not changing the unit price or even the face value. There is no change in face value of the unit or even splitting the unit. We are just reducing the trading lot in line with SEBI circular and in consultation with stock exchanges.

Mohit Kumar: When this is likely to happen, by what time? Any tentative timeline?

Harsh Shah: SEBI has provided 6 months from the day circular was issued. We have started consultation with exchanges, so it will take about couple of months before we can comment on that.

Moderator: Thank you. The next question is from the line of Nitin Rao from Alpha Ideas. Please go ahead.

Nitin Rao: Sir my question is in terms of NAV of the unit, what was it before the transaction and what will it be post the transaction?

Harsh Shah: Our NAV was about Rs. 96.5 before the transaction and we would be pretty much at a similar number after the transaction. the reason being that we are capitalizing ourselves for a longer asset base and our NAV will increase once we acquire the subsequent assets.

Nitin Rao: Okay. So does it mean that over the next 2 years the NAV will move up substantially?

Harsh Shah: we can’t give guidance on NAV but if there are accretive acquisitions, the NAV should go up.

Moderator: Thank you. The next question is from the line of Venkat Raman from Orient Securities. Please go ahead.

Venkat Raman: I have two questions. One is regarding the debt repayment philosophy. I see that in the initial stages of the project, the revenue from the project is on the higher side. I think that is to compensate for the higher depreciation and the interest cost. But when it comes to the payout, the debt is being extended towards the later part of this back ended deal. The distribution payout is initialized for the earlier part. Is that how it works?

Harsh Shah: Okay. Good question Venkat. Every project has a different payment revenue schedule. For example, MTL has a flat structure. NER which is a framework asset has an increasing structure and NRSS has a dipping structure. So, different assets have different structures.

Harsh Shah: Debt re-payment philosophy is to ensure that we maintain our rating but defer the repayment as far as possible. This achieves two things. It allows us to provide investors a better return on the unit as well as it allows us to utilize our entire tenure of our assets. For example, if our cash flows include just the TSA period, it is for 35 years., We would like to extend our debt maturity to the extent of 30 years while amortizing all the loans, so that it offers better equity return or rather equity IRR to our investor. However, in some of these assets we have also repaid part of our debt as a regular amortized deal. For example, we have paid close to 60 crores in FY19.

Venkat Raman: But is it a prudent demand that we repay the debt first and then use the balance period to reward the unitholders, right?

Harsh Shah: Your question is valid. We take every prudent mechanism to ensure that we maintain our rating and the rating agency also runs several test cases, so that in no case we are going to have a volatile outcome on our distribution or debt service capability. I would say that with a AAA rating we are a prudent debt manager. In case we were not prudent, we won't be able to maintain the rating. We will do everything strategically to ensure that we continue to maintain a AAA rating which signifies a prudent asset management

Venkat Raman: And second question, in the year 2023 we have a large repayment of 677 crores, with this current cash flows and 90% of DPUs, would you still have to go for refinancing? Failing which, in 2022 and 2023 we may not have any DPU. Is that assessment right?

Harsh Shah: Correct. That assessment is right. We will have to refinance in FY23. It is a AAA debt and a very small percentage of our overall debt on books. We don't believe that it would result into a scenario where we will not be able refinance. We did two bond issuances in FY19, one in August/September 2018 and another in January 2019, both while the entire financial market crisis was going on and most of the issuers in infrastructure sector could not raise money. but we successfully placed two AAA debentures at InvIT level.

Venkat Raman: You have said that the NAV is now 96.5 based on the valuation report of Haribhakti and Co. I find that they have taken a debt equity ratio of 70 which is considered as the industry standard. But in reality, for IndiGrid it is 50:50, right?

Harsh Shah: Correct.

Venkat Raman: In which case weighted average cost to our capital should be much higher and the NAV should be lower?

Harsh Shah: Okay. Let me give you a little bit of context. Firstly, the asset is not valued with respect to a specific structure and a specific debt equity ratio. FCFF methodology values the asset as if it was acquired by someone else as well and not only IndiGrid. See, asset value should not change if it was acquired by IndiGrid or acquired by someone else. If we use what they are suggesting as our debt equity ratio and other aspects of InvIT structure, then it will result in a disclosure which will be difficult for investors to understand. Valuation is independent of the capital structure as if it is owned by any other owner, not necessarily by IndiGrid only. So that is the reason why a standard industry debt equity is used. Having said so, as we increase our size, , we would also achieve about 67% debt equity ratio post acquisition of framework assets,

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

Keyur Asher: I have a question on the preferential issue deal structure that you were running us through. So post this transaction, KKR would be having 22%. But I read somewhere in the press release that it is somewhere around 42%, so if you could clarify on that?

Harsh Shah: Yes, if you refer to slide number 7 of the transaction presentation, once KKR becomes a sponsor, they will look to acquire 15% owned by Sterlite Power and which would translate into about 37% of ownership by KKR. The 42% which you are referring to is GIC & KKR together, of which 22% is owned by KKR and 20% by GIC.

Keyur Asher: Okay, got it. And just on the guidance could you give us some distribution guidance for the next year?

Harsh Shah: A minimum Rs. 12 for next 12 months as well.

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

Sarvesh Gupta: Sir, on slide 13 for the transaction, you have said minimum DPU guidance of Rs. 12 for the next 10 years. So is that the guidance for the next 10 years?

Harsh Shah: Good question Sarvesh. I would not call it a guidance. It is a visibility. The difference between a guidance and visibility would be that a guidance would have with a lot of confidence while visibility is something which we can see that can happen, but it requires a lot of financing, lot of assumptions behind it. Hence with this transaction and all the 11 assets together, we can achieve Rs. 12 for 10 years. Having said so, we won't like to call it a guidance because it is subject to a lot more acquisition which are yet to reach a definitive stage.

Sarvesh Gupta: With respect to the IRR that you have indicated, your acquisition price for the 5 assets are fixed now, but the finance cost is not yet fixed. So that can also affect your DPU as well as IRR?

Harsh Shah: Very good question Sarvesh. Yes, valuations are fixed. However, they are subject to change as per the changes in the interest rate as well. For example, if you read our EGM notice, there are adjustments to valuations with respect to cost, with respect to interest rate, closing cash, receivables and so on.

In slide #12, you have mentioned that 12% is the IRR for somebody coming in at Rs. 100 post the acquisitions of these 5 assets, right?

Harsh Shah: Yes.

Sarvesh Gupta: So since KKR is coming at Rs. 84, for them is it a 14% IRR deal right now?

Harsh Shah: It won't be 14%. It would be lower than that. But it is not for KKR, anyone entering at Rs. 84-Rs. 85 will get the same higher return, proportionately higher return.

Sarvesh Gupta: Understood. And on Slide #7 you have mentioned Sterlite Power having 21.2% stake now. Since you are almost doubling the total units, shouldn't they be diluted much more to hold less than 15%, as indicated post the transaction?

Harsh Shah: Correct. But they have also contributed about 230 crores to maintain 15% because they needed to maintain 15% as per regulation.

Sarvesh Gupta: Understood. And this 2500 crores will be enough for all these 5 assets?

Harsh Shah: That is correct.

Sarvesh Gupta: 1700 crores acquisition?

Harsh Shah: That is correct.

Sarvesh Gupta: And what will be your debt to equity and EBITDA to interest plus debt payments roughly post this?

Harsh Shah: So, we will have 17,000 crores of assets post this transaction, net debt to AUM subsequent to all these acquisitions will be about 67% which would mean about 11,500 crores of debt. Our EBITDA would be over 2000 crores as and when we acquire these projects. And the exact EBITDA number change is based on which rate you acquire, whether full year or half year, but it would be about 4.5x – 5.0x EBITDA to debt on a full year basis.

Sarvesh Gupta: Okay. And on these 11,000 crores you will pay 8-8.5% interest?

Harsh Shah: 8%-9% again depending on when we acquire, at what cost and it will change.

Sarvesh Gupta: And what will be your net worth roughly to this 11,400?

Harsh Shah: Sorry. I mean we don't calculate net worth because we are acquiring assets, right? So our AUM will be 17,000 crores and our debt would be 11,400 crores. So, we have raised about 5,400 crores of equity which is our net worth.

Sarvesh Gupta: You have raised 2500 crores, right?

Harsh Shah: During our IPO we raised 2800 crores.

Moderator: Thank you. The next question is from the line of GD Mundra from My Temple Capital Advisors. Please go ahead.

Gd Mundra: In the new issuance of preference shares acquired at the rate of 83.89, while the existing unitholder acquired at Rs. 100. So I think that as an existing unitholder I am at a disadvantage to the new unitholders which are entering now. So, in order to compensate do you propose any right issue to the existing unitholder?

Harsh Shah: on the day when we issued at Rs. 84 we were trading at Rs. 82. So any existing unitholder or any other person could have acquired from the market at Rs. 82.

Gd Mundra: Is that option available to this unitholder?

Harsh Shah: Correct. Exactly, it was available to everyone.

Harsh Shah: Exactly, it was available to everyone, you are right. When you issue the primary capital, it adds ability to grow the business. So we are looking to grow our assets and therefore our returns. And therefore, the new capital allows us to acquire more projects and grow NAV for existing unitholders. Now, answering the second part of your question. let us say IndiGrid unitholders have received improved IRR. we communicated on IRR slide as well that post acquisition of first two assets itself, we have increased the IRR by 0.7%. When we acquire other assets, we will improve IRR by 20%, which is 200 bps over or without the capital.

Gd Mundra: The improved IRR will be available to the exiting unitholder as well as new unitholders. And you see existing unitholder has joined at Rs. 100 and new unitholder is joining at Rs. 84. Just to compensate whoever has been with the trust for last 2 years, I think the right issue should have been advisable

Harsh Shah: Your point is right. Unfortunately, the guideline for rights issue has not been published by SEBI. We are working with them, there is a committee and they are looking to raise the right issue guideline as well. So as and when the notice comes out, we will look to acquire via right issue.

Gd Mundra: Sterlite being the sponsor, has also been able to maintain their holding of 15% by acquiring at Rs. 83.89. The new investor also is coming at the same rate. But the public unitholder is put to disadvantage because of this. So I think you can try to address this situation

Harsh Shah: I agree with you. Certainly, once the guidelines come up, we will work for it. Sterlite Power is subscribing only as an obligation to maintain their 15%. If there was no obligation, Sterlite Power may not look to subscribe to the preference issue. Sterlite Power has also acquired from market about at lower price over last 6-8 months. The benefit of this new capital raised will accrue to the existing unitholders, which were there with us since IPO.

Gd Mundra: Existing plus those who are joining us all will get the benefit of the incremental IRR. Do you mean to say the regulation is coming in the way to help a public unitholder?

Harsh Shah: Yes. As of now regulations are not out for rights issue and we are working with SEBI for the same.

Gd Mundra: Sir, in preferential allotment, can you offer some portion to existing unitholder?

Harsh Shah: You are correct. And we have given allotment to our existing unitholders as well. It is not only to new unitholder.

Gd Mundra: How much was offered to public unitholders?

Harsh Shah: As per SEBI guidelines, preference issue is only for QIB investors. we have approached our investors who are qualified institutional buyers meeting certain criteria and threshold. Whenever there was a demand or intention to subscribe, we have looked forward for them and ensure that they get the share. Unfortunately, as of now the rights issue guidelines are not yet out. But when it does come out, I fully agree with you, rights issue would be the appropriate move

Gd Mundra: Sir, hope that you will be able to compensate the public unitholders in future.

Harsh Shah: Sure.

Moderator: Thank you. The next question is from the line of Anand Vyas from Bajaj Holdings. Please go ahead.

Anand Vyas: Sir, the question is, I see strong buyback of sponsor assets, so why wasnt ENICL considered? Were other assets considered because they have been commissioned already?

Harsh Shah: we have just extended the ROFO for ENICL right now. As of now ENICL is under restoration. Once it is restored, we will evaluate if it is fit to be acquired for IndiGrid Investors. As I said before we would like to acquire operating assets which are providing a stable yield. As of now ENICL is under restoration, so we have not considered that.

Anand Vyas: Okay. Sir my second question is, you told that we have next 10 year visibility for Rs 12 DPU per year, right? But it includes certain further acquisition also. My question is what is the basic guidance we can assume if we consider only the 11 current assets?

Harsh Shah: the guidance which I gave included 11 assets. No new assets. If you go to slide #13, the light blue curve is the existing assets plus NRSS and OGPTL which we are acquiring now, and the dark blue assets are the 3 framework assets. The other assets are in the dotted section which would be over and above what we have projected.

Anand Vyas: So these 11 asset give the visibility till let us say FY26-27?

Harsh Shah: No, it is till FY30-31.

Anand Vyas: Okay. So it is for next 10 years, assuming you have only reached 11 assets, correct?

Harsh Shah: Correct.

Moderator: Thank you. The next question is from the line of Gautam Gupta from Nine Rivers Capital. Please go ahead.

Gautam Gupta: My question was on the secondary portion of the transaction in which KKR is acquiring stake from Sterlite Power. Will the pricing for that tranche be similar to the primary issue?

Harsh Shah: Yes.

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

Sunil Kothari: Sir, I need a small clarification. The DPU for current year is Rs. 12. Will it be entirely interest payment or there will be some scope of capital return?

Harsh Shah: Yes, that is going to be majority of interest component for sure.

Sunil Kothari: No, I am asking about current year only. This FY19-20.

Harsh Shah: So even for FY19-20 Sunilji, we have not yet acquired NRSS and OGPTL, we plan to acquire it by June. Once we acquire, we will provide that forecast as well.

Sunil Kothari: When we started at IndiGrid, IRR was 8.6 then it went to 10 -10.7 and then up to 12. You also mentioned that two assets which we are acquiring are at a discount to the market price. So what are the reasons that we are getting a discount on some assets and our IRR is increasing? Is there no other player which is ready to acquire these assets?

Harsh Shah: I will break that into two parts. One is where we are trading. we can't comment on where we are trading and what is the price, our intention is to provide incrementally better returns to investors. This is done through better cash flow and a better IRR. Price is a function of market, function of liquidity, function of how people look at it, function of education and so on.

Sunil Kothari: What I am trying to understand is how we are getting better and better IRR on every incremental assets?

Harsh Shah: Good question. We have got assets in the range of 5%-8% discount at a fair market value. One can assume that this is contribution of Sterlite Power in making IndiGrid successful. IndiGrid per se is core part of Sterlite Power strategy as well, which is to continue to deploy more and more capital into under construction projects, which again helps IndiGrid because it provides the pipeline for us. IndiGrid is a credible buyer, provides the visibility of divestment to Sterlite Power as well as any other seller which allows us to buy with that 5% discount. I would also reemphasize that every single rupee is negotiated, and a fair market value calculated by an independent valuer. However, what entry price to pay is what you know when a competition a third party would pay. So fair market value is just a reference point or an indication for investors to compare to valuations. But does not mean that that is the price at which buyer and seller will transact. That depends on competition which depends on who all can buy. Especially for Sterlite Power assets, as most of these assets were under right of first offer agreement where IndiGrid has a right of first offer beyond which Sterlite Power will have to sell to someone else. It will provide a better value and IndiGrid will have a little bit of preferential treatment with Sterlite Power, than everyone else.

Sunil Kothari: And hopefully after the Sterlite moves away from sponsorship, this discount will remain?

Harsh Shah: So Sterlite Power is not moving away from being a sponsor. They are still a sponsor.

Sunil Kothari: After a year or two?

Harsh Shah: No, there is no plan, there is no disclosure or there is no intention for Sterlite Power which has disclosed that we don’t want to remain sponsor anymore and InvIT platform allows multiple sponsor. So as of now Sterlite Power and KKR both would remain sponsor.

Sunil Kothari: No, I think 15% after some time Sterlite Power is going to transfer to KKR. That is what I understand on this agreement, right?

Harsh Shah: Yes, having said so, they still remain a sponsor to the platform.

Sunil Kothari: Okay. And sir one question is, some days back if you remember there was a paper report about banks are not refinancing InvITs, any clarification on these and how you see this situation changing?

Harsh Shah: Good question Sunilji. We are working with regulator and ministry around that. As of now there is no clarification on InvIT level. And therefore, we depend on the capital market in which we issue bonds meanwhile and also borrow at SPV level, so both options are open for us.

Sunil Kothari: Sir, at what rate we raised bond recently?

Harsh Shah: The latest bond we have raised in January was 8.92% coupon.

Sunil Kothari: Okay. And sir last one more question KKR is now entering as an investment manager of IndiGrid. So what are the benefits and if you can share the valuation method of this particular entity?

Harsh Shah: I would describe what are the benefits as I described in the introduction slide, they manage over $12 billion of infrastructure money and overall, they managed about $200 billion of capital. So by KKR becoming a majority owner of investment manager, the benefit to investors are multifold. Point number one, we receive global access and global relationships and investors of KKR will get to know about IndiGrid. If they are interested, they will have more confidence to contribute capital for growth of IndiGrid. Second, we will get extra benefit and expect global expertise of investment management which KKR has done across the world in infrastructure and beyond infrastructure as well. And third is the Board of investment manager would have majority non sponsor nominee. Once a non-Sterlite Power nominee is in, the perceived conflict of interest would not remain anymore because the investment manager will be independent. So, these are the multifold high-level benefit for IndiGrid investors.

Sunil Kothari: Yes, and on valuation?

Harsh Shah: Valuation is not a public information so I cannot disclose that. But like any other valuation there are several methods that is applied including DCF, including multiples. The buyer and seller agree the valuation, and deal accordingly. It is not a public entity; it is a private entity.

Moderator: Thank you. The last question is from the line of Manoj Bagadia from Eqicorp. Please go ahead.

Manoj Bagadia: Harsh, my question is, if we have an NAV of 96.5 and we are issuing the new unit at a 13% discount, then why such a huge discount for the NAV? Since 70% debt is allowed, IRR is going to be much higher anyway. What was the need to do such a huge issue at this point of time, instead of that we could have done a small issue, realize better value in the market and do some issue at closer to the NAV? I am really confused as to, why were we so desperate about the issue?

Harsh Shah: I would answer there is no desperation and let me answer your question chronologically. If we had not raised INR 2500 crores we could not have acquired INR 11,500 crores of assets. So the 200 bps accretion that you see on the IRR slide cannot be achieved without INR 2500 crores of equity capital. So, while you can see that the rest of the acquisition is coming only because of that, it is feasible due to the headroom that is created by this equity. SEBI has a prescribed norm that we cannot cross 70% if we maintain AAA. Right now, we are at 67% with this acquisition and all the debt with it. So it would not have been possible to acquire the entire 200 basis points without the accretion, without the 2500 crores deal. Coming to your question on NAV, it is just a reference price over here, so that it compares that this is how one can value. There are no tariff assumptions in our business and therefore the key assumptions remain are WACC as well as cash flow which is tied into our contract and tax assumptions. So NAV is nothing but as I would say, a reference price.

Why are we trading at a discount, as I answered earlier, there can be several market factors on account of that and it is just not possible for us to control the market price nor we will try to control the market price .It is a trading unit and therefore market decides the price. And to answer if we are desperate or why are we raising at this time, I would say that as a strategy, IndiGrid stands for ensuring that we buy accretive assets for which we will need to raise capital, need to have quality names on the register and that requires a certain amount of strategy behind it. For example, investors like KKR or GIC do not come in for a very small investment. They would prefer a large investment at one go, which is a benefit for IndiGrid also because we can buy large assets and grow our portfolio accordingly. And if you look at it, when we issued this at 83.89 price even SEBI recognized. SEBI is not talking about the guideline of what is your NAV and issue units at NAV. SEBI also prescribed two-week average on a min and max of that is used to calculate. If we look at it as a comparison, most of the QIPs that could have happened in normal equity issuance, would have happened discount to the trading price, where as our issue has happened at a slight premium. So I think from a platform perspective, our role is to ensure that we can enlarge the platform, improve the quality of investors on our portfolio and add more assets corresponding to that to increase the return to the investors.

Manoj Bagadia: Sir, the only issue is for that, people who subscribed first time at IPO they are the sufferers as of now. Had I put Rs. 100 into FDs it could have been Rs. 115 and with your market price and whatever payout you have done, I have only Rs. 106.

Harsh Shah: Your question is right, but you know it is not a FD product. Our job is to provide yield and we do not control where we are trading, as a price. So for ourselves, the manager of the platform, there remain two options, one is we are trading at 82-84, let us sit there and not do anything, till price comes to Rs. 100 we will wait for new issue. We believe that is detrimental for our existing investors as well. However, when we raise new capital when we can and acquire assets which give post dilution increase in return, it is also beneficial to unitholders who invested at the time of IPO because their NAV goes up, their returns go up. Now for the existing unitholders, as I said earlier, it is a trading stock. Anyone can purchase at the current market price or could have purchased at the current market price.

Manoj Bagadia: I don't agree with you totally on that Harsh. For somebody to buy 2500 crores worth of stock in the market at this price it would have been impossible for sure. For somebody to buy worthwhile quantity to buy or sell it was difficult and that is why SEBI is guiding to the reduction in the market lot size so that there is a lot more liquidity in the market. The conclusion is that this is a great product, this can be a long-term thing, this can be alternative investment. But people who have stayed invested since the IPO for 2 years, are suffering. If a new investor is putting in 2500 crores and gaining 14% return, I think that is very significant., Whereas when we acquired at IPO, we were looking at 12%-12.5% IRR.

Harsh Shah: Sorry to interrupt, your point is right and therefore we have gone in the market looking for investors who could contribute 2500 crores, including our existing QIBs. Smaller or public investors who need not contribute a large amount can buy at 14% or the current trading price today

Manoj Bagadia: I am not sure. I have been a holder for many years, quarters now. I have spent 25 years in the market and seen the price movement of other instruments as well. I would not agree with you, you might have a different view on that.

Harsh Shah: I understand, you can write to us, we will explain and get the detail. For example, I have purchased from the market 2-3 quarters back and given disclosures. When I could subscribe when I have the money, I can buy from the market unless you have a QIB platform. I agree with you a large ticket would impact the price. We have gone to most of the QIBs, who are existing owners to participate.

Manoj Bagadia: And was there any choice, maybe 500 crores now, at least workaround these two projects because you have leverage of additional debt, maybe work with a smaller issue and then wait for the right time to raise the bigger money, was that one of the options?

Harsh Shah: Certainly, that was one of the options. No doubt about it. I am not doubting that we can never raise it and on last 4 calls of all last four quarters people have asked us where the capital is raised, where is the acquisition. We have been on the road for 12 months to look for capital raising. Now if you look at it global investors typically prefer a 1000 crores ticket size .If you were to look for a diversified book, 2000 crores was preferable , plus sponsor was willing to contribute about 200 crores to maintain their shareholding and the residual has gone to our existing investors who could subscribe as part of QIB.

So the option you mentioned exists theoretically, but it poses a greater risk for the InvIT. For example, on most of the questions over last 4 quarters' call, we spoke about how new capital raise is required for your growth and therefore the growth is not certain. Now, we are capitalizing ourselves for two years and therefore growth is certain. We are following what would be a prudent strategy for any yield platform to mitigate one risk at a time.
For example, the prime risk for us is that an asset is not available when we want to buy, or capital is not available when we want to raise; both factors can act as a bottleneck to grow the portfolio and grow the distribution to unitholders. If you look at this transaction, it mitigates both of those risks because the capital is raised, and asset seller has signed a binding framework agreement.

Moderator: Thank you. We will be able to take one last question. The last question is from the line of Rushabh Seth from Karma Capital. Please go ahead.

Rushabh Seth: I have two questions. One, don't you think KKR has a conflict of interest when they are acquiring the asset manager as well as the units at the same time? There is no disclosure given in terms of at valuation is KKR acquiring the asset manager.

Harsh Shah: Okay. Answering the first question, I think there is an alignment of interest, the reason being that KKR will also be one of the largest investors in the platform. They will have no other business or transactions with the platform of IndiGrid versus let us say Sterlite Power who had to sell projects to IndiGrid.

Rushabh Seth: I am saying today there is a conflict, because they are doing both transactions simultaneously and we know price of only one transaction.

Harsh Shah: Yes, we have not disclosed the consideration for the other transaction and probably we will consider that, we will take your feedback and think about it and revert on that. However, in terms of value of the asset, it is insignificant.

Rushabh Seth: Investors would like to know what is the transaction that KKR is doing on both the sides, so that we have a complete picture of both the transaction?

Harsh Shah: That is a good feedback Rishabh. We will certainly work on that and give a disclosure, but as I said it is an insignificant number and therefore, we don't see it as a conflict of interest, but we appreciate your input.

Rushabh Seth: And my second question is on the NAV. You are doing the valuation at a significant discount to the NAV. So is NAV important or not? Because you are acquiring an asset at 6%-8% below the NAV. Then there is dilution of holdings. In a debt instrument if you are valuing an asset at 14% below the NAV and then acquiring at 8% below the NAV, then clearly the NAV cannot remain the same, it must go down for the existing unit.

Harsh Shah: As I said, NAV is a reference price, we do not acquire based on NAV. We have acquired based on FCFE analysis of the project to be acquired. We consider what is the IRR after discounting free cash flow to equity to our new unitholders. We don't acquire based on discount to NAV. NAV is only used as a resultant number, as a reference point and as a number based on which we need to maintain a debt to AUM. Therefore, I would refrain from commenting on why we are trading at a discount to NAV as well as why we are acquiring at 8% or 5% or 7% which is largely a resultant number of FCFE discounting.

Rushabh Seth: So I don't understand, I mean clearly there must be some sanctity to NAV, right? If you are saying that there is sanctity to the NAV, then I am sure that SEBI would have not required you to publish an NAV every 6 months.

Harsh Shah: I didn't use the word 'sanctity' on that. What I said is it is a reference value. Yes, we do not use NAV as a number for acquisition. The prudent practice for acquisition for long term infrastructure asset is FCFE and we use that, NAV is an asset value not an equity valuation model and therefore it acts as a reference value.

Rushabh Seth: So from where I stand as an investor in IndiGrid, today you are doing a dilution which is at 14% below the NAV. I don't have an exact calculation to every cash flow that you are getting on your SPV. There is a huge dilution and we as investors are at the receiving end of this dilution. Because you are combining the transaction with an asset purchase, now there are two different legs. One is the dilution and the second leg is the asset purchase. I have an issue with the dilution, could it have been handled differently?

Harsh Shah: As you correctly mentioned, one aspect is where we acquire an asset, make the entire EBITDA stream available along with the valuation report and FCFE assumption. The key difference between a NAV calculation and FCFE assumption is a leverage and debt structuring that we do to increase returns. Along with that information, we also provide debt maturities. This will enable analysts to build their models. Now coming to the rates, SEBI has clearly guided that we must issue at two weeks' average closing price. We carried out the preference issue at par with the two-week trading average and in fact it was at a slightly higher price than the market price as on applicable date.

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

Harsh Shah: Thanks to all the investors for joining the call. I believe it is a transformative time for us, we have completed 2 years and 8 consecutive quarters of distribution. We have distributed about 610 crores cumulatively at Rs. 21.56 a unit. We have seen headwinds in the market with increase in interest rate scenarios. Since last two years NPAs are increasing in infrastructure sector, banks are struggling and NBFC crisis has worsened. I am happy that investors who supported IndiGrid as a platform benefited from the yield. This transaction which we are executing now, has changed our platform multifold. It will be tripling our AUM under management and providing investors a far more diversified and stable yield for longer period, which we believe is very beneficial for investors. At an investment manager level, having a third-party investor become a majority interest owner and the manager, will bring a lot more alignment of the interest between the management entity and IndiGrid as a platform. We feel that this is going to result in good changes for the prospects of the platform. We will continue to work over acquisition and the decisions which we have scheduled for approval by unitholders. We will look forward to growing the platform to our original vision of 30,000 crores and predictable distribution while following best in class corporate governance. Thank you.

Moderator: Thank you very much. On behalf of Edelweiss Securities, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect the lines.