"IndiGrid Trust Limited
Q2 & H1 FY2019 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the IndiGrid Trust Q2 & H1 FY2019 Results Conference Call, hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I, now, hand the conference over to Mr. Swarnim Maheshwari from Edelweiss Securities. Thank you and over to you, Sir!

Swarnim Maheshwari: Thanks Ali. Good evening everyone. On behalf of Edelweiss Securities, I welcome you all to discuss India Grid Trust Q2 & H1 FY2019 results. From the management, we have with us Mr. Harsh Shah, CEO of Sterlite Investment Managers representing India Grid Trust on the call. I would like to hand over the call to Mr. Shah for his opening remarks post which we will have a Q&A session. Thank you and over to you Sir!

Harsh Shah: Thank you Swarnim. Thanks to all the investors and analysts who have joined the call with us. We are very happy to announce that this is our sixth quarterly call, sixth results, as well as the sixth distribution that we have done since IPO. I would just take this opportunity to thank all the analysts and investors who have invested their capital with us.

At the outset, I would like to talk about something, which you might have noticed in our results as advertised in the newspapers today. We are driven by a very strong purpose, which is "Power is a Fundamental Right". By this, we mean that access to reliable power is a fundamental right. And being in a business of owning transmission assets allows us to do just that. We will continue to operate with this purpose of empowering the country by ensuring that reliable power is available to all as a fundamental right. Having said that, we are going to start with a brief on the sector, and then we will come back to IndiGrid.

Transmission remains a fundamental link between the generation and the consumption of power. In a country like India, we have specific fuel centric power generation centres and different power consumption centres. In terms of supply, Coal is the predominant fuel used in the East; hydro in the North-east and North; and solar is probably important in the west and northwest. Whereas in terms of demand, the west and northern regions remain the key consumption centres. We believe that transmission will continue to play a very, very important role in ensuring that the cheapest and the most reliable power is available to all, regardless of where they are. Historically, the sector has been relatively underinvested. However, in the last five to six years, the investment into the power transmission sector has increased substantially, and we feel that this trend will continue.

Recently, there have been a couple of regulatory changes in the country. One of them is the high reliance on solar energy, and the second one is the separation of carriage and content - basically, the unbundling of conductors to the last mile. Both these factors will drive the future demand of the transmission lines to support new generation centres and a variety of consumption patterns. We believe that the transmission sector remains robust, and will continue to see a large demand for new projects. IndiGrid will be a part of this trend through its ownership of such assets, and we are participating in a market that will be very large.

With this background of the industry, as per slide 5, I would like to reiterate what we stand for. IndiGrid remains the only power transmission yield platform in the country, with an asset base today of about Rs.5,300 Crores; 13 transmission lines; and three substations across nine states. It continues to remain AAA rated. Maintaining permanent ownership of our assets ensures that we can earn in perpetuity, and that our cash flows continue in accordance with that.

As of now, the initial residual life of our contracts remains 33 years, which constitutes one of the longest agreements of predictable cash flows available in the country. On the right hand side of the slide, you can see the content in grey are the initial portfolio assets with which we started at the time of IPO, and that there are four more projects subsequently added, which were acquired during the last 14 months. We plan to continue to keep adding new projects and grow the portfolio even further.

On slide 6, we are talking about the vision of IndiGrid. Our vision is to become the most admired yield vehicle in Asia, which is built on solid fundamentals of transparency, governance and providing superior risk adjusted returns for unit holders. That is exactly what we have tried to achieve over the last six quarters, and we plan to continue the same in the future. The three pillars shown below showcase our vision to grow our AUM to Rs.30,000 Crores by 2022. We will continue to focus on delivering predictable and growing DPU. We will ensure that we entrust upon best-in-class corporate governance practices and ensure the participation of unit holders in all key decision-making processes of the business.

That leads me to the next slide, which is about our Q2 performance. On slide 8 are some of the key parameters highlighting how we have performed during the quarter. Our EBITDA on a year-on-year basis has grown by 24%, and that is primarily on the back of the acquisitions of four assets we have accomplished. The availability for the assets continue to be above the threshold, resulting in maximum incentives being earned. We are well below the limit of 49% net debt to AUM, which we need to maintain as prescribed by SEBI. We have consummated the first third-party acquisition, which was announced in February 2018. Now this asset belongs to us, and since August 31st, we have started earning cash flows and NDCF on this acquisition. This quarter we are maintaining our guidance, and this will be the third straight quarter that we have maintained the distribution of Rs. 3. And now, we are well on our path to achieve Rs. 12 DPU guidance, which was provided at the beginning of the year.

Slide 9 showcases our consistent operating performance. We have consistently maintained a higher than required availability in every single asset, and earned maximum incentives on a full year basis from all our assets. We are investing in high quality O&M and predictive techniques, which will allow us to earn maximum incentives for the rest of the assets' lives.

Slide #10 showcases our continued strong financial performance. This is our sixth quarter of performance. As you can see, on the right-hand side, we started the first quarter, which is one month in Q1 FY2018 with a DPU of INR 0.92. And today it is at Rs. 3, which represents a substantial growth. Going forward, we will continue to maintain the Rs. 3 as DPU**. In total, since our IPO, we have distributed Rs.15.56 per unit to our investors, amounting to about Rs. 440 Crores since IPO.** This statistic is interesting to note, as we talk about our total return in the subsequent slides.

Our revenue for Q2 stands at Rs.165.3 Crores, and our EBITDA is at Rs. 151.7 Crores. Both of them are higher than Q1, primarily on account of acquisition of the third-party asset and some operating savings. For the half-year basis, we have clocked Rs. 325 Crores revenue, and an EBITDA of Rs. 297.5 Crores. Our H2 numbers would be slightly higher than H1, because of the new asset that we have added in Patran, which has only contributed for one-month in H1. In H2, it will contribute for the entire period, and therefore, these numbers would increase for H2 in comparison to H1. In Q2, we have distributed Rs. 85 Crores.

Looking at slide 11, starting from the EBITDA at Rs.151.7 Crores: we have paid interest of about Rs.27.9 Crores on external debt at the SPV level. We have amortized Rs.15.8 Crores debt at the SPV level. There have been working capital changes of about Rs.15 Crores at the SPV level, resulting into Rs.92.4 Crores of NDCF at the SPV. We have received 10 Crores principal from one of the SPVs, which we have used as additional cash. Interest at the IndiGrid level remains at Rs.22.4 Crores, on the facilities that we maintain there. This includes the additional provision of about Rs. 5 Crores, towards servicing interest. Also, we have consumed about Rs.10 Crores of reserves from an SPV, to get to Rs.85 Crores NDCF at the IndiGrid level, allowing us to distribute Rs.85 Crores to our investors, translating to Rs. 3 per unit.

I am on slide #12 now. We follow a prudent liability management on our balance sheet. The bar chart below showcase how our liability mature across various years, starting from FY2019 right up to FY2029. Our weighted average maturity of the entire portfolio is approximately eight years, and we have continued to be rated AAA for our facilities. Our weighted average cost is at 8.36% and these costs are locked in, so we do not see any variability over next few quarters or for the year in our interest payout. Considering where the markets are in terms of interest rates and volatility, we are not going to face any volatility on account of that for the next few years. This is because we have locked in our interest cost on all our facilities.

Coming to slide #13, this is something which we are showing for the first time, to provide our investors with a snapshot of what we have delivered and how one can really look at IndiGrid within the universe of investments. Going back to the advertisement in the newspaper and the press release that you saw today, we do highlight that IndiGrid stands for stability amidst volatility. To illustrate this, the data over the last 15 to 16 months on slide 13 clearly showcases how we are stable amidst a volatile market. The orange line of IndiGrid, that includes distribution, has been much, much less volatile in comparison to what we have seen in the broader equity market, as well as compared to relative indices.

Even if we compare ourselves to the 10-year GSEC, we have been substantially less volatile in comparison. So, this is to share with investors how we have performed over the last 15 months of our existence, and how one may look at it with regards to volatility.

On slide #14, we are reiterating one of our key promises, which was to deliver superior risk adjusted total returns, and how we have fared against that commitment. Total returns is the summation of distributions we have made, and the change in price of the unit over the comparable period. As you can see, our total return is approximately 6% higher than what a 10-year or 30-year G-SEC could have yielded. If somebody would have invested Rs.100 in a 10-year G-SEC or 30-year G-SEC versus the same amount in IndiGrid, you have been 6% worse-off in comparison to that.

In comparison to other indices, whether infra, power or capital goods, we are substantially better considering the higher amount of distribution that we make. In comparison to the entire market, which is NSE 500 that we are comparing with, we are 6% lower. However, with far lesser volatility and developments that has taken place since September 30th, (this data is as on September 30), would further narrow the gap between the broader indices and what IndiGrid has delivered. This is to provide the perspective of how investors can look at IndiGrid on a total return basis, because we continue to distribute on a quarterly basis. It is an important part of returns to our investors.

In addition to this, I would like to talk about our growth strategy. Going back to our vision, we will look forward to acquiring operating assets from the sponsor and 3rd. Party to ensure that we increase our AUM and offer additional cash flows in an accretive manner.

There are two operating assets shown on the left ENICL and NRSS, which are fully operational. There are other assets on the right, OGPTL and KTL, which remain partly operational and revenue generating. Gurgaon NER-II and Goa Tamnar remain in the development stage. All these assets put together has potential for four times growth to our AUM and EBITDA, which will allow us to cover a large part of our growth journey, that we are targeting over next three years.

On slide 17, we clearly outlay that we want to reach a portfolio IRR of 12% from sponsor assets. Since our IPO, in addition to the Initial Portfolio Asset which we started with, we have acquired three projects from our sponsor and one third-party asset. We can clearly see how our AUM will grow over next two to three years, and this is what will allow us to achieve a 12% IRR to investors.

Slide 18, depicts how our revenue curve and NDCF curve has flowed. So, our DPU (in light blue), if we would have not acquired, would be going down. What we have acquired is depicted by the dark blue, which is MRP transaction from the sponsor. The green one depicts the new injection that we are looking at for further increasing the stability of our cash flow. The additional orange line what we see on the top, depicts the potential acquisition of third party assets, which will allow us to grow even further. We continue to evaluate several assets in the country. As and when these assets or any new opportunities become credible and achievable, we will come back to our investors for further information and approval as and when required.

As I finish the presentation, I would like to emphasize on few points, which is a part of our results and some of you may have questions around that. The first one is on capital or principal repayment, and to explain that first I would like to explain what IndiGrid is. IndiGrid is an infrastructure investment trust. It is a pass-through vehicle. It invests its capital whether it is equity or loan in the subsidiaries, to earn interest income, principal repayment or dividends. Primarily these three sources of income are expected.

As we acquire more projects, there will be more cash flows in the SPVs than the interest than that we have charged. Certain SPVs would earn more interest than we charge to that SPV. It would result in the cash flow being unstreamed to IndiGrid in form of principal repayment, which IndiGrid will have to pass it to investors in the same form being a pass-through platform. And therefore, you would see some principal repayments being also declared this quarter.

To some of the investors this may be beneficial, as it may not be taxable in the hands of some investors. And therefore, for that much income there will not be any tax, providing for a better post tax yield. Other than that, as we acquire more projects, we will provide visibility of such split between capital repayment as well as interest or dividend if any. Having said this, fundamentally there is nothing that has changed in the business. The cash flows that we earn at the SPV level remains what they were, and we will continue to distribute 100% of cash flows that we earn over a period of time. This principal repayment has no implication on our ability to earn cash flows from our SPVs, which we will distribute to investors.

The second thing to note, which is different from the last two quarters, is the impairment or the reduction in NAV. There are changes in the market conditions as all of you would be privy to. The government securities yield, since our listing has increased substantially, and because of that, on a half-yearly basis, when we calculate our NAV using our WACC, our NAV comes down if WACC goes up. Our WACC has increased on account of changes in rate as well as changes in our incremental cost of debt, which is what has reduced our asset value, which in turn translates into the NAV. Even after acquisition of all those assets, we are still at Rs.96, primarily on account of the rising interest rate environment.

This does not have any impact on our ability to distribute cash, or what we earn from SPVs. This is only an accounting adjustment on account of relative valuation carried out in comparison to where the markets are. Therefore, from our side, investors need not worry about the cash they will earn from this investment. We will continue to distribute Rs.3 a unit on a forward going basis.

With this, I would like to open the discussion for questions. Swarnim, can you please go ahead and ask for that.

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

Apurv Bahadur: Thanks a lot for taking my question. Sir, I wanted to understand this impairment that we have provided during the quarter worth Rs. 236 Crores. If you could throw some light on that, it will be very helpful?

Harsh Shah: As I said it is an accounting adjustment. IndiGrid owns SGL1, as well as the five assets, namely BDTCL, JTCL, MTL, RTCL, and PKTCL. At the consolidated level, this impairment gets eliminated. However, at a standalone level, we compare it with the book value of investment. So, the book value of investment in SGL1, minus the fair market value of the assets in the SGL1, gives us the difference that comes in as an impairment. Having said so, when we consolidate all our investments at the IndiGrid level, this gets eliminated because this is purely an intra-company adjustment. I will take a note to the other impairment, which is Rs.39 Crores. This is a real impairment, if I may say, which is on account of the variation of investment value in the SPVs, or rather the acquisition value of the SPVs, minus the fair market value of the assets today. If you look at the split that we have provided in the financials, primarily there are three assets because of which we have taken impairment at a consolidated level. One being BDTCL at Rs.19.3 Crores; another being JTCL at Rs.18.7 Crores; and lastly PKTCL at Rs.1.2 Crores. This is on account of a reduction in fair market value of the assets in comparison to our investment or acquisition price. That’s because the G-SEC has gone up, and so the WACC has also gone up. On a fair market value basis, the value of the assets have gone down, and therefore we have to provide impairment. If tomorrow the government securities rate reduces, and the cost of debt and WACC also reduces consequently, we might see a write-back and the fair value of the asset goes up. This is just to be transparent about how relatively the fair market value is calculated, and how it will impact the financials and truly represent the fair market value of the assets in the books of accounts.

Apurv Bahadur: Sir, just wanted to understand how often does this adjustment take place - does it happen in every quarter?

Harsh Shah: This happens on a half yearly basis, because we conduct an independent valuation by Haribhakti on a half yearly basis. In the evaluation done by them, which is based on discounting of the future cash flows, we need to either provide for impairment, or write-back impairment on half-yearly basis.

Apurv Bahadur: Okay, so for the assets that are in pipeline and that are not yet acquired, does their value also fluctuate accordingly?

Harsh Shah: Yes, your point is right. Any incremental asset we acquire would be with respect to today's market conditions. Because of that, if we would have acquired an asset a year earlier, we would have acquired them relatively more expensively. That's because the cost of debt would have been cheaper. Today the cost of debt and WACC is higher, and therefore an acquisition would be appropriately at a lower price.

Apurv Bahadur: Okay, that could be depending on the cost of debt assumed in the fair valuation?

Harsh Shah: Cost of debt assumed in the fair valuation would be used for calculating the fair market value of the asset at that time, and not the acquisition price, per se. However, when we actually acquire the asset, it is acquired basis the accretion resulting from that acquisition, based on the real cost of debt, which we are able to raise at the time of acquisition. To put it simplistically, fair market value consider certain cost of debt and that should be decided on the market condition at that time.

Apurv Bahadur: Does it assume Refinancing?

Harsh Shah: Yes.

Apurv Bahadur: Sir, in a rising interest scenario, we could see this more often; however, when the cycle reverses, we will see lot of write-backs?

Harsh Shah: Yes, I suppose that is the way it should work. It's important to note that the impairment does not have an impact on the business and cash flows that we distribute. In the same way, write-backs will not have any positive impact on the business. Fundamentally, we are there to earn cash flow from the asset, which is stable and predictable. The relative value of these cash flows can change based on the market conditions, but the cast flow does not change on account of that.

Apurv Bahadur: The only impact might possibly be that if we acquire more assets in a higher interest scenario, then we are likely to get them at a cheaper rate?

Harsh Shah: Yes, and most likely, you may see that. At the consolidated level, if we acquire an asset on a good price resulting in an increase NAV (because we are acquiring at accretive transaction), it implies that there is an accreting cash flow. Therefore at a consolidated level, for all assets combined together we may also see that. But still, that will depend on the prevailing market condition.

Apurv Bahadur: Okay, got your point Sir. This is based on the slide 12 of your presentation on the repayment schedules. I am assuming this is only for the debt at IndiGrid level and not at individual SPV levels - right?

Harsh Shah: No, this is entire external debt including the SPV level debt.

Apurv Bahadur: So, if I see, say in FY2023 there is large repayment around Rs.700 Crores, assuming that there is no refinancing, how do we plan to accumulate this amount of cash to repay. Because, as per my understanding, we are almost distributing everything that we are earning every quarter right?

Harsh Shah: So, I would just say that it is not reasonable to assume that we will not refinance. We are a AAA entity, and at any point in time we desire to refinance, we are able to do so. Even in current market conditions, if we were to refinance, we would be able to refinance. And therefore we do not see it as a challenge to refinance.

Apurv Bahadur: Perfect Sir. Thanks a lot.

Moderator: Thank you. Next question is from Sunil Kothari from Unique Investment Consultancy. Please go ahead.

Sunil Kothari: Thank you very much Sir for the opportunity. Sir, just one point I am not getting is that you promise during last con-call and at AGM, that this distribution will be fully interest and not capital, so what has changed if you can explain?

Harsh Shah: Thank you Sunil. Fully agree to you, and I remember that. What has changed is that when we acquired Patran Transmission Company Limited., there was Rs.10 Crores of cash balance in the company. IndiGrid up-streamed this Rs.10 Crores cash to itself in the form of loan repayment as there was not enough interest accrued in the SPV. When IndiGrid received the Rs.10 Crores of cash as the principal repayment from the SPV, it also had to distribute it to the unit holders, as it is a trust and a pass-through vehicle. So, it happened primarily on account of new acquisition. I said even sometime back that as we acquire new projects, the projection of the split between interest, principal and distribution would change. Going forward, on an annual basis, basis our asset base; when we project our distribution guidance, we will also try to provide guidance on the break-up of principal & interest component for the benefit of investors.

Sunil Kothari: Any further scope of capital distribution during current year?

Harsh Shah: We do not see any further scope of capital distribution during the current year. Having said so, we many acquire other assets and that may change. So, from the existing assets, we do not see it.

Pratik Kothari: This is Pratik here. Regarding this Rs.10 Crores, which you mentioned that we received from the new asset. So was this accounted for? Should not we have received Rs.12.3 for the whole year?

Harsh Shah: Can you repeat the question, what 12.3 is?

Pratik Kothari: Regarding the 30 or so extra paise that we are receiving in this quarter, is it because of Rs.10 Crores that was lying in one of the acquired assets? I mean, when we calculate it Rs.12 at the start of the year, we would have calculated based on the revenue that we would have generated from all the assets that were lying with us. So this Rs.10 Crores extra cash that we got because of acquiring this asset and which is being redistributed to the unit holders. So as a result, why is it Rs.12 and not Rs.12.3 then?

Harsh Shah: I think this is a very good question that you have asked. If you look at our balance sheet, we have about Rs. 145 Crores of cash balance at the end of September 30. As we are planning to distribute Rs. 85 Crores out of that, which is Rs.3 that we spoke about, that would leave with us Rs.60 Crores balance as a cash. In the last few calls, investors and analysts have asked about do we distribute everything or do we retain some? At the end of the day, we believe that it is prudent to keep certain amount of cash in the business to ensure that there is no unpredictability on a quarter-on-quarter basis when it comes to distribution. So we have Rs.60 Crores cash after distributing as on September 30th, and this cash supports us and ensures that we can provide a predictable distribution. So to answer your question if the board would have decided that we want to distribute the entire Rs.60 Crores, the distribution will not be only Rs.3.30 paise, it could even have been Rs.4 as well. But we think that it is not advisable to not to keep any cash in the business, and it may just lead to a surprise on a quarter-on-quarter basis due to some unforeseen reason. So, we continue to maintain certain cash in the system.

Pratik Kothari: What is the reserve that we are comfortable keeping it at the IndiGrid level like you said Rs.60 Crores it is currently?

Harsh Shah: Good question. I do not have an approved number from the board, so we do not have a policy on the reserve we have either approved or communicated. Having said that, whatever over and above Rs.12 what we have guided for, we will keep it as a reserve, which allows us to be more flexible in quarter-on-quarter basis.

Pratik Kothari: But say when this Rs.12 was calculated at the start of the year, would it have been calculated based on the revenue that our assets will be generating?

Harsh Shah: That is correct.

Pratik Kothari: The reason that we have to dip into our reserves, does it imply that there is shortcoming on the revenue guidance, or the revenue expectations that we had?

Harsh Shah: No, that does not imply that. Even dipping into the reserve is part of the plan when we provided Rs.12 per unit. When we acquire third party assets, it is extremely difficult at the beginning of the year to give guidance on what date and what state we will acquire the third-party asset. As part of our plan, we did not plan to acquire third party asset with cash, even though adjustments may keep happening as we close the M&A.

Therefore, as and when we close any new third-party or sponsor-based M&A, we need to come back and be prepared to give explanations to investors on how it has changed our cash balance.

Pratik Kothari: Thank you so much Harsh. All the best.

Moderator: Thank you. The next question is from Dhiraj Dave from Samvad Financial. Please go ahead.

Dhiraj Dave: Good afternoon. Thanks for providing me this opportunity. I have a couple of questions. Firstly, we mentioned through the presentation that the interest rate is at around something like 8.25% fixed for eight-year maturity. Just wanted to know what kind of arrangement you get into, is it some fixed payment swap?

Harsh Shah: We have several facilities in our books, and we have disclosed them in the financials. So the 8.25% that you are referring to is a 10-year fixed loan.

Dhiraj Dave: It is a 10-year fixed loan - so do we have any derivatives?

Harsh Shah: There is no derivatives with respect to that. There is an ECB in BDTCL, which is around US$ 42 million, for which we have entered into derivatives from last four years at the SPV level. This facility was there before BDTCL was acquired by IndiGrid. These derivatives are basically fully currency swapped, which allows us to keep our principal as well as interest amount fully hedged.

Dhiraj Dave: Do we not see any uncertainty coming from that side? Is it that "locked" is really locked, with no assets marked to market, or something which will hit us? Because it is corporate accounting, might there be some issue coming from that? I do not how is it?

Harsh Shah: I will just rephrase, there will be no surprise on the cash flow on account of that. In any derivative, there will be an MTM impact on a positive and a negative, even if we are fully hedged. In your P&L and balance sheet, there will still be an impact of MTM (positive or negative). The hedge is there to neutralise any cash impact.

Dhiraj Dave: My second question is on operational level. While we see a marginal increase in the performance, particularly revenue as well as EBITDA, we nevertheless have more new assets with at least one month's utilisation after we acquire.

This was not the case if we consider Q1 FY2019, or also Q4 FY2018. One request I have is to see if it would be possible for you to give quarterly number, because as of now, we get half yearly numbers. So if you were to do Q2, probably either you would need to go to the presentation, or you may need to do deduction and figure out. So one request would be if you can present numbers as quarterly without violating any disclosure requirements. The second question basically is at operational level. We do not find any major growth in this quarter. Like “same sale growth" in retail industries, if we consider the same asset, which have been worked for three months in Q2 vis-à-vis Q1, would we get some kind of growth figure as marginal growth, and what was the factor for that?

Harsh Shah: I think I will answer the second question first. Power transmission is an availability-based contract service. It means that our tariffs are fixed and we have signed a contract for 35 years. On account of that, there is no revenue growth even if we achieve 100% availability. If we produce 99.75% availability, we receive maximum incentives. So, it is not like a plant where we have better yield, and therefore better output. It is our capacity based contract. So, as there is no downside, there is no upside. It is tariff-based on availability, and there are incentives on top of higher availability, which we have earned the maximum. So if we are performing on maximum incentives, and booking that quarter-on-quarter, you will not see any improvement in revenue on account of that.

Coming back to your first question, it would be good if you can clarify because what we have sent is half year to half year and Q1 to Q2 comparison. So if you can clarify what exact comparison which we are looking at, then we can consider that part?

Dhiraj Dave: On the impairment at the net level, basically we are getting a loss. But I think that you explained that it is because of the mark-to-market, which we need to do because of NAV or interest rate going up. At the net profit level, we see negative growth if you deduct out from that part.

Harsh Shah: I would urge to all that net profit in this business is slightly different than the net profit in the normal business, because over here we are primarily managing a cash focused business. Whatever we earn, we distribute. It is not out of our reserves or PAT, so it is slightly different.

Dhiraj Dave: One more question. I did not find balance sheet in the interim financial which has been provided. So, would it be possible if you can represent this because you said that you have cash flow of Rs.60 Crores. I couldn't find it in the financials which you have submitted to exchanges. So, I would request if it is possible to give a consolidated balance sheet?

Harsh Shah: Your question is right that the SEBI guidelines requires us to follow half-yearly standard P&L and therefore there is a signed P&L and audited P&L which is to be released. On an unaudited balance sheet, SEBI regulations does not require us to disclosure. We will definitely evaluate this request and also discuss with the board of the investment manager. If it is approved, we will think about revisiting that disclosure norms.

Dhiraj Dave: Wish you all the best.

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

Keyur Asher: Thank you for the opportunity. I actually have a couple of data point related questions. So, this third-party asset that we have acquired - can you share with us the date of acquisition, and from which date we have started booking revenues on this one?

Harsh Shah: We have acquired the SPV on August 31st. So, we have started earning the income technically from that day onwards, and you can assume September 1 for any other purpose.

Keyur Asher: Regarding the total debt number at the end of the quarter if you could share that number as well. I believe this acquisition was debt funded?

Harsh Shah: That is correct. The gross debt in the business is Rs. 2,645 Crores.

Keyur Asher: Okay, can you also help me with the split for this Rs.2,600 odd Crores; the debt figure at the SPV level; and at the "holdco" level?

Harsh Shah: We have this breakup. Rs.976 Crores in BDTCL; Rs.425 Crores in JTCL; & Rs.1,244 Crores in IndiGrid.

Keyur Asher: Thank you so much.

Moderator: Thank you. The next question is from the line of Sunil Shah from Turtle Star Portfolio Managers. Please go ahead.

Sunil Shah: Good evening Sir. I have just one question. In terms of the guidance that you gave, that is the DPU for FY2019 is Rs.12: now assuming that in the next year, or the couple of years after that, we do not do any change in our assets. Is it then safe to assume that this DPU remains intact?

Harsh Shah: Good question, Sunil. Please refer to our slide #18. To see the effect if we do not acquire any assets, see the curve of light blue and dark blue. The curve would remain more or less at Rs.12 for next three to four years. After that it will reduce marginally, and after five, six years it will reduce and come back to around Rs.8.5 to Rs.9, and then go back up after FY2028. So that is the curve of our DPU if we do not do anything. I am not sure if we have answered your question and it is a question about the IRR right? When we try to calculate the IRR of the existing portfolio asset at the Rs.100 of investment, our IRRs on all the assets together is 10% at the current market price. Where we are trading at about 90, it is approximately 11% IRR, which captures NPV of the cash flows till maturity.

Sunil Shah: To maintain the Rs.12 DPU, we have to acquire assets, which clearly seems to be the thing, and which has been highlighted here in the green and the red over there. So obviously, we are going to acquire assets only if we get a certainty that the DPU is going to be more than Rs. 12 - right?

Harsh Shah: Good point. We will only acquire any new assets with a focus on an IRR increase.

Sunil Shah: Thank you so much for clarifying this. Thanks.

Moderator: Thank you. The next question is from the line of Dilip Agarwal, Individual Investor. Please go ahead.

Dilip Agarwal: I have four small questions. One the slide #14, are the total returns, which we have demonstrated, based on the market value at 90, or based on the NAV calculation?

Harsh Shah: This is based on the market value and not based on the NAV.

Dilip Agarwal: At the start of the presentation, you said the assets were perpetual, and then the second line you said that it was for 33 years. So what exactly happens after 33 years? Do you have an option to renew and continue the agreement? Or do the assets become obsolete which means that you cannot run any more electricity through these lines?

Harsh Shah: Yes, good question. So when I said perpetual, the SPVs have invested about 5,000 Crores in building the assets, which is the civil foundation, transmission line towers, conductors, insulator, substations, etc. These assets belong to the SPV and let us say there is a contract for 35 years with a residual life of 33. So even at the end of 33 years, let us say transmission is not required - then these assets remain with us and therefore there is a substantial terminal value to it. There is almost over a lakh tonne of steels and aluminium that is available with us, which is very well recoverable and usable and so with a sizeable terminal value to it. However, more realistically, transmission would remain as a required service because incrementally, building a transmission line will become more expensive and increasingly difficult. This is because transmission lines require setting up towers through a state or a country via roads, railway, tracks, rivers, forests, and wildlife etc. To have new or a second corridor built, not only is it uneconomical, but it is also far, far more difficult as population densities go up in India. One such example is many of these assets are built under a right of the regime where we had to pay only crop compensation as a damage. However, if any new transmission line gets built in, they need to pay 85%

of the market value of a registered value of that land just to have ROW, while the title still remains with the farmer. What this says is that the incremental assets will be built at a far more expensive level and therefore the existing assets become far more valuable, because the replacement cost has gone up. So, if there is a transmission capacity required in that scenario, there is a very, very high chance that there will be a renewal of the contract and renewal of the tariffs, because the cost of building a new one will be prohibitively high. This is what provides us a possibility of earning a perpetual cash flow, and in the worst case, when everything has changed, we still have a lot of metal with us to sell and really have one time cash flow coming to us. Did I answer that question?

Dilip Agarwal: Yes you did, but I have just two follow-up questions on that. So one is on the IRR/NAV, which you have mentioned is based on assuming a zero terminal value, or a terminal value of scrap asset or some other assumption? The second question is can there be a case that in five years from today, the cash flow requirement goes down? Or it is because you have the tariffs, which has been agreed with the transmitter is going down as per the original agreement, or it is because of operating expenses increasing because you need to renew the line and do more repair?

Harsh Shah: Sure, to answer your second question, it is going down because when we sign the transmission service agreement, we sign a carve off tariff, and it is exactly representing that. There is no impact on operating performance or any material maintenance, which causes this. To answer your first question, on impact of terminal value - yes. Our valuation report for H1 includes terminal values, which will be available on our website, by end of this month or early next month. However, this accounts approximately 3% of FMV.

Dilip Agarwal: I have two more questions sorry for the long list. For all future acquisitions, if you believe they will be debt funded, or will you issue more units - and if you were to issue more units, how will that account? Will it be issued at NAV, or at a market price?

Harsh Shah: Sure, so we are at 47% of a net debt to AUM. By that clear number, it is very evident that if we acquire large assets, we will have to issue new units to raise capital. Now, coming to the question that you asked on pricing of the units. SEBI announced about couple of months back the guidelines for issuance of new units for InVITs, which has a pricing formula that prevents us from issuing new units below last two weeks average. Therefore, we cannot issue units below what it is trading at. Having said so, at what price we will issue units is entirely dependent on market conditions, and what we see as our investors' demand and appetite. However, the existing investors should not be largely concerned about that, because whatever units that we raise will also go towards acquiring new assets. Therefore, if the investor is earning, let us say 11% IRR today at Rs.90, after issuance of new units IRR would go up, and that is our fundamental value proposition. By whatever price we raise the units, we acquire assets at such a value that all the unit holders, old plus new, earn slightly higher than what they earned before.

Dilip Agarwal: So, if the new units are issued at a price lower than NAV, which is the market condition today, because the market price is lower than NAV, does that not impact the existing unit holders?

Harsh Shah: That is a valid question. See existing unit holders are holding the unit, which is selling on the exchange that let us say Rs.90 even if the NAV is Rs.96. So, if they want to sell today, they will have to sell at 90, and that is something which we cannot control because that is how the market is. However, the cash flow that they earn out of that is stable, and that is not changing based on these changes. If the new capital raise, which we do even that is lets say below NAV, provides existing investors higher than what they are earning today, they are at the end of the day gaining more post valuation. So, let me give you a reason, let me give you an example if there are 10 unit holders today holding one stock each and earning total of Rs.10 for the company which means Re.1 earned by each investor. If we raise new capital at 50 paisa each and 20 more investors join, 20 more units join, and we get a capital of 20. Now there are 30 investors with one unit each wanting to earn something. If we invest this new amount which we raised, ie this Rs.10, into an asset which provides us Rs.25 in that scenario, the total Rs 30 that is invested for this 30 and the Rs.20 that is invested for 30 investors would earn Rs.25 plus Rs.10 equal toRs.35.Therefore 35/20 equal to Rs 1.75 would be the distribution per unit, which is far higher than the Re. 1 which investors would have earned without having new capital and new assets joining the portfolio.

Moderator: Thank you. The next question is from the line of Dipen Shah, Individual Investor. Please go ahead.

Dipen Shah: Good evening Harsh. I had a couple of questions. Firstly, on earlier question about the distribution of units, you said that you are distributing maybe 22 paisa less dividend, keeping in mind any future and certainties or any eventualities. So, if you can just maybe give us some idea on the couple of eventualities what can come through. Is it that you need the cash, maybe 60 Crores of cash which you are keeping, is it that you will need this cash for acquisition? Is that the eventuality, or are there any other uncertainties, which we are not aware of right now in the existing business?

Harsh Shah: Thanks a lot for the question. To answer your first question - we are not distributing 22 paisa lower. We are distributing Rs.3, what we promised. This is not a loan instrument, where there is a mandatory interest payment on a quarter-on-quarter. This is a cash flow-based distribution, which we distribute Rs.12 a unit every year, and Rs.3 a quarter, as we promise. The breakup of that, rather for retail investor, is more tax friendly because you will not be paying on the cash that you receive without impacting your future cash that you will earn on it.

Dipen Shah: Sorry to interrupt you, but if we keep on reducing the capital component, our borrowing limit also gets correspondingly impacted since it has to be 49%?

Harsh Shah: No, borrowing limit is not to do with reduction of capital repayment. Borrowing limit is fair market value of assets, calculated based on discounted future cash flows. So, it is debt divided by share market value, and not debt divided by capital reduced etc. So we will not have impact on account of this.

Dipen Shah: The second question is just a follow up on the previous question. Where you have new assets, if they are acquired and if there is some issue of units, I agree to whatever you said that if it is happening, at say, maybe current price of 88 or 90, then you will ensure that the distribution per unit is beneficial to the investor. But, would it not send out any signals if you are issuing equity at 90 when the fair market value is 96, because while we will have interest on that, which will be Rs.12 or up 11% IRR, the reduction in the capital value did definitely impact us - right? So, see we as original investors have bought units at 100 because it is 88. If you issue that at 85, then obviously the share price then will come down to 85 in the stock market, which will impact us negatively. So would it not be fair that you have to issue shares only at fair market value of 96 or 100, to send out a signal that the company actually wants to, actually sees the fair market value at 96?

Harsh Shah: I understood Dipen your question is bang on target and a very, very important one. I would address it two ways first of all you invested in IndiGrid at Rs.100, and we have provided better returns than any other indices barring NSE 500. So, we have lived up to our promise. At the end of the day, we are a financial investment, and if the market goes up and down relatively, our value will go up and down. It is impossible for us to control our stock price; however, we have still delivered better returns than any other investment one would have made. Coming to your second question, it is not management who really invests in the next round of equity. At the end of the day, there will be an entire new set of investors, including the existing investors, who will invest in the company. So, it is like that any capital raised is largely a function of what the market is like and whether the capital raise and the acquisition is resulting in a value accretive strategy for the company or not. So, our focus is on ensuring that our investors earn more IRR, and not really worry about the issue price, or what is the trading price. For our investors who have invested Rs.100, we have outperformed any other instrument on DPU as well as IRR since what we promised on at IPO. If we raise new capital also, what we are promising is that the investors will earn higher because the IRR will go up from where it is. We believe that with the next round of capital getting raised, as well as new assets getting added, our platform will become more attractive. Rather than, any signal that we are raising capital at lower price, because it is a value accretive growth and therefore the return per unit will go up, and therefore it will result in rather a better impact off than worse off impact of not doing it. Having said so, we promise to deliver best for our unitholders, and we definitely take note of your concern and we will work on it.

Dipen Shah: Coming back to the first question I think we have missed out on what can be the eventualities where you might need that extra cash, which you are keeping, any potential risks which we are not seeing right now?

Harsh Shah: I do not think there is any potential risk, which we have not disclosed in our prospectus or any other calls. This is not against any potential risk or eventuality - eventuality is extremely not the right word. It is quarter-on-quarter and anything can happen. Quarter-on-quarter, there can be some impact where we want to acquire new assets, or there can be some impact where you want to invest in something for the improvement of return to investors. For example, this quarter we paid insurance amount for the entire next year, which is about 9 Crores. So, if you want to do such expenses where we are protecting ourselves to enter next year, suddenly in the quarter there is a 9 Crores payout, which in P&L will not come, but we have paid one year advance. So, there are such kinds of operating changes, which can happen quarter-on-quarter and it is difficult to pinpoint any one material eventuality, is what we are saying.

Dipen Shah: Thank you very much and all the very best Sir.

Moderator: Thank you. We will take the last question from the line of SP Toshniwal from Sunlight Broking. Please go ahead.

SP Toshniwal: Harsh, you just said you paid Rs.9 Crores premium for next one year. My question was about these transmission lines. What kind of risks do you see from floods, droughts etc., and what kind of insurance protection we have?

Harsh Shah: Thanks Mr. Toshniwal. I think this is an important question. Transmission lines are exposed to large earthquake or riots. Riots do not impact us that materially, unless you are constructing during that period. So there are two lines of defence, or two insurance that one can say we have. Firstly, we get revenue based on the availability and what we earn out of the tariff in our TSA which is Transmission Service Agreement. There is a clause of force majeure in case there is an event, which is beyond our control as a transmission service provider. In that scenario, our revenues continue to accrue and our cash continues to get paid. Therefore, that is a first level of defence for any event. The second is, let us say that there is any capex to be replaced or events, which let us say our regulator may not agree that there is a force majeure. We take insurance which is all risk insured cover, which includes risks of flood, terrorism, earthquake, fire, peril, design damage - everything is included in that. With this insurance policy, we are protected against revenue, even if our regulator says there is not a force majeure and it is not covered. So, we continue to get business interruption cover, and therefore our revenue will continue. The second one is capex replacement: if we have to do large restorations and spend money on that, this is also covered under this insurance policy.

SP Toshniwal: I know most of the investors invested at 100, and now worried about going down all that, but assets is giving IRR of 12%. In last quarter I remember correctly there was some indication that two year down the line IRR is likely to reach to 13% is it correct?

Harsh Shah: No. I do not think we have ever communicated that. We are sticking to a 12% IRR for the investors who do acquire at Rs.100.

SP Toshniwal: Now, as and when you raise another round of fresh capital, will there be a right issue? So, if any existing investor wants to participate at whatever reduced price here, they have at least fair chance to participate?

Harsh Shah: SEBI as of now only come up with guidelines of preferential issue, which includes QIBs. Only the QIBs will be able to participate in the new fund raise. Having said so, as a retail investor, one can always buy from the market at the price where we are trading at. So, that will result in commercially the same impact for the retail investor.

SP Toshniwal: No Harsh but finally understand, the terminal valuation is significantly higher than what you have assumed while arriving at IRR. The terminal will be much higher than 3% which you have assumed and the actual depreciation would have been much lower than what we are presently taking into the books. A new investor is participating in the existing gap ,while the existing investor is not getting a chance to participate. When the plan to raise fresh capital is announced, - the market prices may go up by 5%, 10%in response.

Harsh Shah: I will give the answer in two buckets. First is the impact of terminal value, which we disclose in our the Haribhakti valuation reports. One can do a simple calculation of what is the weightage of terminal value in the total NAV. That is more factual and we will get an accurate view on that. The second part of what you described is right, whenever we announce a capital raise, the market share price may go up and I am not too sure what we can do about that and at the end of the day we are also bound by SEBI regulations. We are working with SEBI to see how there are different guidelines of capital raising that can come out. As of now, there is only one guideline of capital raise that has come out from SEBI and when they come out with the guidelines on right issue we will probably follow that, so that is not a problem for us.

SP Toshniwal: Anyway Harsh a query to your management that as and when the announcement comes, it is better to come out with the right issue and any institutional investor can participate in that by just acquiring that new units?

Harsh Shah: I fully agree with you and take note of that.

SP Toshniwal: At least, we remove the market uncertainty being a long-term investor into debt instrument we remove the market uncertainty of day-to-day fluctuations on this.

Harsh Shah: Correct. I agree with you.

SP Toshniwal: Thank you so much.

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

Harsh Shah: Thank you, and thanks a lot to everyone who joined. We are really happy that quarter-on-quarter our investors and analysts' questions have changed and have become substantially deeper. We feel our business is simple and as more people understand, the better it is for us and for our investors. We are happy to explain every single nut and bolt of our business and I think as more people understand and appreciate the value proposition that we have, more people would see attractiveness in owning IndiGrid. I will close on the key points that IndiGrid represents stability amidst volatility, and clearly we can see from a performance, our returns have been predictable. For the investors who have invested their capital in us, we have outperformed the broader market on a risk adjusted basis and we would continue to focus on predictable distribution as we have promised and growing that. Thanks a lot for participating on the call today.

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