"Torrent Power Limited Q2 FY25 Conference Call"

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MANAGEMENT: MR. SAURABH MASHRUWALA – CFO, TORRENT POWER LIMITED
MR. RISHI SHAH – GENERAL MANAGER, FINANCE, TORRENT POWER LIMITED
MR. JAYPRAKASH KHANWANI – AGM (FINANCE), TORRENT POWER LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Torrent Power Limited Q2 FY25 Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Saurabh Mashruwala – CFO from Torrent Power Limited. Thank you and over to you, sir.

Saurabh Mashruwala: Thank you so much. Good evening to all of you and thank you for joining the Earnings Call of Torrent Power for Q2 FY25.

First, I will take you to the Performance of the quarter, after which, phone lines will be open for Q&A session. I will explain the performance of the company at PBT level first, then we'll take you through the tax expenses separately.

Reported PBT for the quarter stood at Rs. 689 crores compared to Rs. 741 crores in the corresponding quarter last year. Reduction of Rs. 52 crores is about 7% on reported business. PBT for the current quarter includes non-recurring credit of Rs. 67 crores on account of two factors. First, accounting of Rs. 99 crores on receipt of favorable order in the licensed distribution area, which mainly includes the carrying cost allowance partially offset by lower generation from the wind power projects on account of forced stoppage of wind turbines due to heavy rain and Asna cyclones witnessed in Gujarat during the quarter leading to a reduction of contribution of Rs. 32 crores.

Adjusted for the one-off, PBT for the quarter stood at Rs. 622 crores as compared to Rs. 741 crores in the comparable quarters of last year, reduction of Rs. 119 crores, which is about 16%.

Business-wise factors contributing to this performance are as follows. First, contribution from thermal generation business reduced by about Rs. 80 crores mainly on account of two factors. First, lower contribution from sale of merchant power and LNG of Rs. 35 crores. The country in general witnessed a lower electricity demand during the quarter, mainly on account of extended and widespread monsoon in the current quarter against erratic monsoons during the comparable quarter of last year. So in any way, both the quarters are not strictly comparable. Despite of the lower overall demand, the company was able to maintain almost same level of merchant volumes. However, margins were lower due to extended monsoon, keeping merchant price subdued. Second, additional contribution for thermal generation was also impacted due to higher O&M expenses and lower incentive on account of schedule maintenance in the quarter. Second, non-cash adjustment on account of the foreign exchange variation of Rs. 24 crores.

The contribution from renewable generation, adjusted for the one off item, reduced by Rs. 29 crores on account of lower PLF from existing wind and solar power plant due to lower wind speed resources and irradiation respectively. Lower contribution from capacity of 274 MW commissioned during the quarter as the project is under stabilization phase. The distribution license as well as franchised distribution compensated each other and segment as a whole remained stable in terms of profitability. Demand growth was flat during the quarter at 1% across all our distribution areas. Balance deviation is an account of other income, finance cost, and depreciation. This completes the explanation of financial performance during the quarter.

Moving on to the project update, first update is renewable energy capacity of 274 MW got operationalized in the year taking aggregate installed generation capacity of the company at 4.5 GW as of 30th September 2024, comprising of 2.7 GW of gas, 1.5 GW of renewable and 362 MW of coal based capacity.

The company was awarded pump storage hydro projects of 2 gigawatts in an auction conducted by the MSEDCL during the quarter. Pipeline project has at the end of the quarter includes 3 GW of renewable power project and 2 GW of pump storage hydro project and 2 transmission project at Khavda in Solapur. Further details in the pipeline project have been summarized in our latest investor presentation available on the website.

Moving on to the new ventures, first, company's private project in Green Hydrogen blending with CNG in UP is expected to commission shortly. Further, the company has got allocation of 18 kTPA green hydrogen production under SECI PLI scheme at an average PLI of 28.89 kg. Technical feasibility has been done and detailed business plan is under preparation. With respect to pump storage hydro projects, we have identified project site with potential of 8.4 GW of pump storage hydro in the state of Maharashtra and UP. Pre-feasibility study completed and MoF terms of reference has been granted for the entire capacity of 8.4 GW. Agency also appointed for the EIS study. As informed earlier, we have been received LoA for pump providing pump storage facilities to MSEDCL for aggregate capacity of 2.2 GW. That's all for the quarter.

Now I would request coordinator to open the lines for Q&A session. We wish everybody to stay safe and healthy. Thank you so much. Handing over line to the operator.

Moderator: Thank you very much. We will now begin the question and answer session. Our first question comes from Mahesh Patil from ICICI securities. Please go ahead.

Mahesh Patil: Sir, my first question is with respect to the employee cost and other expenses in Q2 that seems to be some significant increase compared to Q2 last year. Employee cost are up by 18% and other expenses around 14%. Any specific reason, any one-off items in this?

Saurabh Mashruwala: There is no one item, normal increase are there because increase in O&M expenses for the higher merchant sell is accounted for. Normal staff cost increases there. And the FOREX loss, which is a non-cash item, we have also booked as other expenses.

Mahesh Patil: Foreign exchange loss that you mentioned is Rs. 24 crores?

Saurabh Mashruwala: In fact if you look at the euro was about Rs. 90 as on 30th June, went up to Rs. 94 as on 30th September again came down to 91 as of today, so hopefully this will get reversed. It's a non-cash item in Q3.

Mahesh Patil: So, the second question is regarding this, our Bhiwandi franchise area wherein the agreement is expiring in Jan 2027 and as we are almost entering 2025 now, any plans and related provisions in the agreement for further extension?

Saurabh Mashruwala: The franchise agreement Bhiwandi we last got renewed in 2017. There is a provision that with mutual consent, it can be extended for further five years. So when time comes on 2027, we'll again discuss with MSEDCL for the extension. But the agreement provides extension period of further five years with a mutual discussion.

Mahesh Patil: So this will be taken up for discussion sometime in FY25?

Saurabh Mashruwala: Appropriate time, we will take it up with the MSEDCL.

Moderator: Thank you. Next question comes from Amit Bhinde from Morgan Stanley. Please go ahead.

Amit Bhinde: I just wanted to know the exact quantum of merchant EBITDA that was there in the base quarter because to the extent that I remember in Q2 FY24, we just had around Rs. 25 crores of merchant EBITDA, I think so. And most of the accounts had around Rs. 150 crores of revenue on that, which you used to disclose earlier. So now if I say Rs. 35 crores of difference, then we are indicating minus 10 crores of merchant EBITDA. I don't think that would be the case, right? We wouldn't be selling anything on loss. So if you can help us with the exact numbers?

Saurabh Mashruwala: Last quarter, merchant EBITDA was about, merchant profit I would say, was close to about Rs. 40 crores, Rs. 42 crores. And since there is a 35 cr reduction, about Rs. 7 crores was the current quarter.

Amit Bhinde: Rs. 7 crores is the gap. If I talk in terms of units, we had DEGEN generating around 180 million units and apart from that, some small sales that you would have from SUGEN, etc., so would the number of units be around 200?

Saurabh Mashruwala: About 300 MUs.

Amit Bhinde: So you sold 300 MUs and you made Rs. 7 crores of profit?

Saurabh Mashruwala: The market was supportive because of monsoon season. This Q2 generally is always an impact of monsoon and this part of monsoon is very widespread and very heavy as compared to the last it was a very erratic monsoon, not that widespread. So demand last quarter or similar quarter demand was very strong as compared with the current quarter. So we just inspected the merchant sale also as well as our wind and solar PLF also this quarter.

Amit Bhinde: If I look at 300 units approximately sold Rs. 7 crores of merchant EBITDA, we are just making a 0.2 EBITDA per kilowatt. That's pretty low.

Saurabh Mashruwala: If you look at the price also exchange it was lower as compared to the comparable previous period it was a bit higher as compared to last year. So monsoon has impacted the quarter in terms of merchant volumes as well as wind and solar PLM also.

Rishi Shah: So if you look at Amit, last year Q2 there were erratic monsoons and it was not widespread compared to current year in this quarter, it was a very wide spread and very good monsoon because of which the demand has been impacted. So even after that sort of a demand, we were able to demonstrate that we will be able to sell merchant of 300 MUs in this quarter with lower profitability.

Amit Bhinde: And any which ways, I think now just one more number that I would like to understand. Earlier when the brent price was around 85, our effective cost would be around 6.5 or so gas cost. So now with this brent price falling steeply, where does our gas cost stand per unit?

Saurabh Mashruwala: $75 is a brent and roughly it will be at 75 and about Rs. 4.50.

Rishi Shah: I think our long term contracts are linked with brents, so three-month dated brents, but for spot cargos, they are typically sort of fixed rate prices. So I am not able to get clear understanding on what is your question. You can't directly compare brent with merchant cost or fuel. Long term contracts are linked to brents, but for merchant we typically book spot cargos and then we tend to convert that into fixed rates also. So effectively we'll have to look at it on a MMBTU basis.

Amit Bhinde: Because I was just trying to compare it with the slope because the brent was correcting then I thought probably we'll have lower gas cost and lower pricing probably too?

Rishi Shah: That you are right, that is for the long term contracts which are typically for our PPA which we have.

Moderator: Thank you. The next question comes from Sumit Kishore from Axis Capital. Please go ahead.

Sumit Kishore: Just one question, of your total contracted capacity of 2,149 MW, is it correct that PPAs have been signed for the entire capacity except the REMCL 100 MW?

Saurabh Mashruwala: So renewal, you are talking about renewal capacity?

Sumit Kishore: Yes, we contracted 2,149 MW excluding, I think REMCL, it seems that PPAs are signed across the board, right?

Saurabh Mashruwala: So renewal, as far as renewal, about 1.5 GW operational capacity is completely tied up, about 3 GW under construction. Out of 3 GW, about 200 MW is untied up, for the merchant. Rest is tied up, PPA is signed or the LOA is received.

Sumit Kishore: So I was referring to slide 15, where the contracted capacity is 2,149 MW. Out of that, only REMCL shows that the SCOD is 24 months from PPA?

Rishi Shah: I think you are right, Sumit. PPA is pending for REMCL and as Saurabh bhai explained for air power since it is a merchant capacity which you are putting up there is no PPA. Apart from that every other contract we have already entered into PPA. And the REMCL should be, let us say, in a month or two-month time, it will be signed.

Moderator: Thank you. The next question comes from Anuj Upadhyay from Investec Capital. Please go ahead.

Anuj Upadhyay: Sir, just want to get your sense on the re-imposition of section 11. It has been extended for the thermal, but not for the gas-based station. So want to know your view on this and if you can elaborate more on the recent PSP tie up which we did with Maharashtra that would be helpful?

Saurabh Mashruwala: In terms of section 11, during the summer time, it was imposed first time for the gas based power, so they haven't got renewed also, so we will have to see next summer, how the next summer. And as far as the PSP capacity of 2 GW is concerned, it is a 40 years contract we have and about 85 lakhs per MW per annum is the rate fixed cost and power will be provided by the MSE DCL, so we don't have to worry about the power. And it is total 5 hours of continuous supply and 3 hours is optional, they will schedule it. And it will be, cycle loss is about 25% and cycle loss is stipulated basically, maximum cycle loss of 25%. That is what the contract is and there will be 2 GW of contracts we have signed for 40 years.

Rishi Shah: And Anuj, just to add to what Saurabh bhai said on the earlier question of yours in terms of section 11 not being extended to gas-based power plants, typically if I look at gas-based power plants in the country, apart from us, a lot of gas-based power plants are slightly costlier than coal-based power plants. So typically on a FIFO basis, if you look at it, if demand is higher than section 11, typically would be available on gas-based power plants, but if demand is lower, I think then first quote of call would be for coal based power plants to be operational under section 11 and then if it surpasses certain amount of demand, then typically would be on the gas based power plants because it will be looked upon from the entirety rather than on one particular plant. So all other gas-based power plants are slightly costlier compared to coal.

Anuj Upadhyay: So would it be fair to assume that considering that the section 11 can be imposed only mainly during the peak time period, say 4 months of the summer, and then probably it may get extended for September, October, probably, I am saying, subsequent year as well, so DGEN utmost can operate at around 35%-45% kind of a PLF, in the best-case scenario, I am saying or even that is on a slightly higher side?

Rishi Shah: Anuj, I think giving you specific numbers is very difficult because it will be just putting an estimate, but what I can tell you is that if we look at our Q2 numbers, DGEN has shown a higher PLF compared to Q2 of last year. Our merchant volumes are also higher compared to last year even though the prices were lower. So whether section 11 is imposed or not, I think we are in a position to run our plants without section 11. In terms of profitability is concerned, I think it is a factor of what are the prices available in the market. And even at such subdued prices which we have seen in Q2, we have been able to make profits. Now, those profits may not be significant compared to what we have seen in Q1, but typically running plants in Q2 where there is a demand is pretty low, that also is I think, is a positive sign. I think that is what I can tell you. In terms of percentage PLF, very difficult to give you any guidance on that.

Moderator: Thank you. The next question comes from Sumit Kishore from Axis Capital. Please go ahead.

Sumit Kishore: I just had a follow-up question. What has been the total CAPEX that you have incurred so far against the renewable portfolio expected project cost of Rs. 19,316 crore so far?

Rishi Shah: So Sumit, we don't have those numbers against Rs. 19,000 crores what we have spent. On a broad ballpark number, I think we would have spent around Rs. 1,500 crores, but exact numbers I can give it to you offline. As of now, we don't have that on hand.

Saurabh Mashruwala: Cumulative number, we don't have right now.

Sumit Kishore: So total CAPEX that you have incurred in first half of the year at a consolidated level would be how much? This is 15 billion is only for RE?

Rishi Shah: Sorry, you are talking about the consolidated H1 CAPEX which we have spent?

Sumit Kishore: Yes, so 15 billion is the RE CAPEX that we have incurred so far for under construction projects. What is the total H1 consolidated CAPEX also if you have?

Rishi Shah: Yes, I will tell you. So for renewables for the H1, we have spent around Rs. 650 crores in the renewables part of it. For license and franchise put together, we have spent around Rs. 700 crores and some Rs. 30-Rs. 40 crores balance on other CAPEX side. So if I look at the overall CAPEX number, around Rs. 1,400 crores of CAPEX which you have spent in H1.

Sumit Kishore: So just one observation that I wanted to clarify. If I look at capital work in progress in the BSE filing as of 30th September 2024, it is Rs. 2,143 crores and as of March 2024, it was Rs. 2,472 crores. So CWIP seems to have come up in the first 6 months. So we have thought that they should have gone up?

Rishi Shah: So I think, Sumit that is because we have also commissioned around 247 MW of capacity for our TPLD 300 MW project. Partly, it is because of that and partly because our license distribution also would keep on capitalizing or commissioning certain projects. It is because of the capitalization only.

Moderator: Thank you. The next question comes from Mahesh Patil from ICICI Securities. Please go ahead.

Mahesh Patil: So my question is on the other income for the quarter which seems to have gone up to around Rs. 120 Cr on console. So any color on this what has contributed to the increase in this number?

Saurabh Mashruwala: It is a normal increase, not, I would say 108 to 125, it is a normal increase, nothing else I would say.

Moderator: Thank you. The next question comes from Sagar Gandhi from Invesco Mutual Fund. Please go ahead.

Sagar Gandhi: My question is on the renewable portfolio, so while we are planning to expand it to 4.3 GW over the next 3-4 years, can you highlight or give a broad perspective on any challenges that you face for evacuation of this upcoming capacity?

Saurabh Mashruwala: So if you look at the renewable portfolio challenges will be the land acquisition, evacuations, these are the main challenges. But as far as our portfolios are concerned, about 80% land is in possession and all first connectivity approvals are in place because those are the things. First we work on those things and then we participate within the project. So these are the things as far as we are concerned.

Sagar Gandhi: So out of our under construction, 3 GW of renewable capacity, that is in pipeline, are you trying to say that all of it has got transmission access or the transmission access will be there by the time this portfolio is ready?

Rishi Shah: Sagar, what we do is we keep on acquiring land, so last 2 years if you look at the 3 GW which we are looking at was built effectively in last 9 months, but before that also even though we were not winning some bids, we kept on acquiring land which provided good PLF in terms of solar or wind. Along with it, we also kept on applying for connectivity approvals. So effectively what has happened is for this 3 GW which is under construction, we have around 80% land which is already available. As far as evacuation is concerned, Stage 1 connectivity approvals are there for all the projects which we have. And we also keep on looking at additional land parcels and connectivity approvals. As and when we keep on getting new projects, we will be able to utilize those connectivity and land parcels which are there or which we have acquired over a period of time. So effectively, we have identified these two as a major roadblock for renewable projects and we try to mitigate those risks by taking without any projects in hand, we try to keep those land and evacuation ready. So then when a new project comes in, we are ready with that.

Sagar Gandhi: And sir, my second question is on the green hydrogen side. So while many players are figuring out on the manufacturing of the electrolyzer side, so what steps we have taken on that segment and what is our broad roadmap in that direction?

Rishi Shah: You are talking about green hydrogen, right? So effectively we have won 18 KTPA of green hydrogen under the PLI scheme. Right now, we are trying to find out a commercial endpoint in terms of the price at which we can sell right now and what are the costs at which we can generate. So unless we are able to get a clear answer to that, we have not committed any capital under that, so we are working on that. As and when we get a clear answer on both these points, I think we will be committing the capital, but to give you any perspective on that right now is difficult.

Sagar Gandhi: Sir, any tie ups that you may have done on the electrolyzer side that you may want to highlight?

Rishi Shah: Electrolyzers?

Sagar Gandhi: Yes, because that is a precursor to manufacturing of green hydrogen?

Rishi Shah: That is right.

Sagar Gandhi: What capability do you have or are we tying up with some global players for building that capability?

Rishi Shah: So I think that would be a second stage as and when we decide to commit on this capital for green hydrogen, then we will be looking at electrolyzers, locking in electrolyzers and renewable capacity. But as I told you, we are still working on the end use in terms of economically viable end use and the selling price. So once we have a clear view on that before that we will not be putting in any orders as of now.

Moderator: Thank you. Next question comes from Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: I joined late, so I may be repeating the question. But my question is on the pump storage hydropower plant. So where are we in terms of giving the orders? What are the timelines you are looking at? What is the kind of capital cost you are expecting?

Saurabh Mashruwala: In terms of pump storage, pre-feasibility study is completed. LOI has been received from the MOF and we have appointed the agency for the EIS study and the letter of award is also received. So from the 2 GW capacity from the MSE DCL. So the cost will be roughly about Rs. 4.5-Rs. 5 crores per MW. That is what our current estimation is.

Mohit Kumar: You must have identified the site, right? So what is the timeline you are looking at? I think what is the PPA is 48 months, am I right?

Rishi Shah: Yes, 48 months for the commissioning period, date of…..

Mohit Kumar: And have you signed the PPA as of now or PPA should be executed?

Rishi Shah: No, I think it should be done in some time.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Saurabh Mashruwala for closing comments.

Saurabh Mashruwala: Thank you so much for joining Torrent Power's Earnings Call. Thank you very much. We wish everybody to stay safe and healthy. Thank you so much.

Moderator: Thank you. On behalf of Torrent Power Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.