Torrent Power

Operator: Ladies and gentlemen, good day and welcome to the investor and analyst conference call hosted by Torrent Power Limited to provide an update on the acquisition of Nabha Power Limited announced today. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. On the call, we have the management team of the company represented by Mr. Jagdish Mehta, Whole-time Director of Generation, and Mr. Saurabh Mashruwala, Executive Director and CFO. I now hand the conference over to Mr. Saurabh Mashruwala, CFO. Thank you and over to you, sir.

Management: Thank you so much. Good evening everyone and thank you for joining the call. As communicated earlier today, we have entered into a definitive agreement with L&T; to acquire a 100% equity stake in Nabha Power Limited. Nabha Power operates a 1.4 GW supercritical coal-based power plant located at Rajpura, Punjab.

The enterprise value, net of cash for the transaction, is approximately 6,889 crores, comprising three components: first, 3661 crores of equity and convertible instruments; 495 crores for promoter loans; and 2,733 crores of net debt. This transaction is based on a lockbox date of March 31, 2024, with customary closing adjustments at the time of consummation. It is expected to be consummated by Q1 FY27, subject to necessary regulatory approvals. For FY25, the company reported an adjusted EBITDA of 1,158 crores, adjusted for lease accounting, implying an EBITDA multiple of 5.97 times and a cost of Rs.4.92 crores per megawatt.

Now, let me give you some basic parameters of the acquisition. First, the company operates a 1,400 MW coal-based power plant, which is fully tied up for 25 years under Case 2 competitive bidding guidelines. It has been actively operated for more than 11 years with 13 years remaining. The PPA allows for further extension. Second, the PPA has a two-part mechanism comprising fixed capacity charges linked to availability and scheduling. Variable charges are based on actual coal costs and normative operating parameters. Third, over the last period, the plant has demonstrated strong operational performance with availability consistently above 90%, auxiliary consumption maintained at or below 4.6%, and a Station Heat Rate well below the CEA recommended level of 2,250.

The acquisition adds high-quality, best-in-class assets to our portfolio, supported by fully contracted cash flows and a strong operating track record. This is expected to be accretive from day one. The acquisition allows us to extend our footprint without construction or execution complexity in the thermal sector. This addition of operating capacity brings our total to 6.4 GW and is in line with our philosophy of having stable cash flows with minimal risk.

We expect the asset to deliver more than 15% ROE with certain upsides not currently considered in our base case. This includes potential fly ash income, which has not been factored into our projections. Second is the higher operating revenue compared to the historical average. Third is the lower fly ash disposal cost. Fourth is the interest rate savings, as their current borrowing cost is higher compared to our current average cost of borrowing. This concludes my opening remarks. We are now open for questions.

Operator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and then one on their touchtone phone. If you wish to remove yourself from the question queue, you may press star and then two. Participants are requested to use handsets while asking questions. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Again, to register for a question, please press star and then one. Our first question comes from the line of Rohit Kishor from Axis Capital. Please go ahead.

Rohit Kishor – Axis Capital: Good evening. My compliments on this acquisition. My first question is, could you speak about the residual PPA lives for the project and your assessment of the residual useful life of the project, as well as what you intend to do after the signed PPA term ends?

Management: Thank you so much. The PPA life is 25 years, which is fully contracted with the Punjab state discom. Out of these 25 years, the first 12 years are already over, and there are 13 years remaining. The plant was manufactured using reliable technology and is technically very sound. We expect that beyond the lease, it will run for more than another 10–15 years.

Rohit Kishor – Axis Capital: Okay, so maybe 13 years of residual PPA period plus another 10–15 years of useful life because the technology and machinery are good. While there is still significant time remaining, should we assume that on mutual agreement you will continue to operate that plant on similar terms, or would you have some other arrangement?

Management: We expect the PPA to be extended. If you look at the merit order ranking, this plant ranks very high. Given the cost of replacement and new thermal plants being around 9–10 crores per megawatt, extending this plant is a very viable option. We expect to get an extension from the regulator and the state.

Rohit Kishor – Axis Capital: My next question is an accounting one. In terms of the adjusted revenue of 4,866 crores that you reported in your presentation versus the reported revenue of somewhere around 4,400 crores, can you help us bridge the difference and explain what restatements were made?

Management: About 450 crores of the restatement is because of lease accounting being lower than the actual cash flow. If you look at the cash flow for FY25, you can see the operating cash flow is 1,500 crores against reported numbers. The operating cash flow expected from this power project is higher than the reported P&L; numbers.

Rohit Kishor – Axis Capital: So what was the operating cash flow in FY25 for Nabha Power?

Management: The reported operating cash flow in FY25 was 1,500 crores, and in FY24, it was around 1,360 crores. The cash flow number is better than the reported P&L; number.

Rohit Kishor – Axis Capital: So the adjusted number you have given for FY25 is 1,158 crores and the operating cash flow is 1,500 crores. Were there some accumulated working capital amounts that got released, which resulted in the operating cash flow being higher?

Management: Yes, that could be the case.

Rohit Kishor – Axis Capital: On a revenue basis of 4,866 crores, what are the expansion opportunities that you are looking at? What kind of capital commitments would you look to make for that expansion over the next few years?

Management: One additional module of 700 MW is possible at this site. Land is available. Once we take over the plant, we will evaluate how we can expand by adding that one module.

Rohit Kishor – Axis Capital: Just my last question. What would the consolidated leverage level look like on a pro forma basis after you absorb this acquisition and include the capex you have planned over the next couple of years?

Management: We have about 6,000 crores to 7,000 crores of debt on our balance sheet, and our liquidity remains strong. On a net debt to EBITDA basis, it comes to around 5.5 times at the start. Looking at our overall projections, we are comfortable with these numbers for the next 5-6 years because the investments we are making in thermal, renewables, and pumped storage will be phased over time. The good part is that this asset will be significantly accretive right from day one.

Rohit Kishor – Axis Capital: Are we funding this acquisition entirely through debt?

Management: Yes, that is correct.

Rohit Kishor – Axis Capital: Thank you so much for taking my questions.

Operator: Thank you. Our next question comes from the line of Atul Tiwari from JP Morgan. Please go ahead.

Atul Tiwari – JP Morgan: Thank you and congratulations on the acquisition. My first question is about FY25. What was the fixed charge in the tariff and what was the actual fuel cost? I believe coal has to be hauled over a long distance.

Management: The capacity charge was about 1,400 crores, which works out to about Rs.1.49 per unit. The variable cost is roughly Rs.2.80 to Rs.2.90.

Atul Tiwari – JP Morgan: Okay, and there was no under-recovery on the variable cost? You were able to recover the actual fuel cost on a landed basis.

Management: Yes, it is completely recoverable.

Atul Tiwari – JP Morgan: This Rs.1.49 capacity charge in FY25, what does this number become in FY30 and FY35 under the PPA?

Management: It will be around Rs.1.40 to Rs.1.41. It is not much different.

Atul Tiwari – JP Morgan: So the decline is negligible, which is good to know. Thank you.

Management: Thank you so much.

Operator: Thank you. Our next question comes from the line of Anuj Upadhyay from Investec. Please go ahead.

Anuj Upadhyay – Investec: Hi, thank you for the opportunity. There was an agreement between the Punjab government and Nabha Power to set up certain green energy projects as well, which I believe falls under the same SPV you have taken over. Will we be continuing with that green capacity addition, or would that remain with L&T;?

Management: As of now, there is no such formal agreement in place.

Anuj Upadhyay – Investec: So, regarding the brownfield expansion or green energy side?

Management: It was more of a statement or discussion between the previous owners and the Punjab administration rather than a specific binding agreement.

Anuj Upadhyay – Investec: Okay, fair point. Thanks for this.

Operator: Thank you. Next question comes from the line of Aniket Mittal from SBI Mutual Fund. Please go ahead.

Aniket Mittal – SBI Mutual Fund: Thank you. Regarding the adjusted EBITDA, when I look at the P&L;, the number is a bit lower, but the cash flow shows a higher recovery. Could you clarify why the number is lower in the P&L; and what is showing in the cash flow that is not in the P&L;?

Management: The main reason is the lease accounting they have adopted since the start of the plant. Because of lease accounting, they amortize the capacity over a 35-year lease period. This results in recording about 450 crores less revenue compared to the actual cash flow. Therefore, the cash flow and adjusted EBITDA are higher than the reported P&L; number by that amount.

Aniket Mittal – SBI Mutual Fund: So if I look at FY25, roughly 1,100 crores seems like a fair cash flow from operations that this plant should generate. Is that a fair understanding?

Management: Yes, that is correct.

Aniket Mittal – SBI Mutual Fund: And how does that number progress toward FY30 or FY35, given that capacity charges might move downwards?

Management: As explained earlier, the current capacity charge is Rs.1.49 per unit. Going forward, it will be around Rs.1.40. The reduction of about 6-9 paise is quite immaterial compared to the current levels.

Aniket Mittal – SBI Mutual Fund: Got it. Are there any significant maintenance-related costs that you foresee for the plant?

Management: Nothing material.

Aniket Mittal – SBI Mutual Fund: I noticed in the P&L; that there is no tax being paid. Are there certain tax benefits that can still be availed? When do we expect to start paying tax?

Management: They have net tax credits available. They are under the MAT regime right now, and we have credits available that will be used over the next 2-3 years.

Aniket Mittal – SBI Mutual Fund: The net debt number reported is as of March 31, 2025. What would be the current net debt, and is the transaction value based on enterprise value or the equity amount of 4,100 crores?

Management: The equity value is what we are paying. The net debt is currently lower than the March number because repayments have happened over the last 9 months.

Aniket Mittal – SBI Mutual Fund: You mentioned this transaction will be funded through debt. What is your average borrowing cost?

Management: Our current average borrowing cost is about 8.5%. Nabha Power's current average borrowing is about 8%.

Operator: Thank you. Our next question comes from the line of Paramita from Avendus Park. Please go ahead.

Paramita – Avendus Park: Good evening. To clarify, the enterprise value of 6,900 crores at the end of FY25 would be paid entirely through debt from our side. Is that right?

Management: To clarify, we are paying 3,660 crores in equity value and around 500 crores for the repayment of the promoter loan. The total net cash outflow from Torrent Power would be around 4,100 crores. The rest is the net debt already sitting at the project level.

Paramita – Avendus Park: So 4,100 crores of incremental debt will be taken by us, plus the existing debt at their level will be added to our consolidated numbers from FY27.

Management: Yes, that is correct.

Paramita – Avendus Park: Regarding the accounting, you mentioned the reported P&L; EBITDA is 750 crores, but the adjusted EBITDA is 1,158 crores and OCF is 1,500 crores. When we consolidate, what will be our accounting policy? Will we continue with lease accounting?

Management: The reported numbers of 750 crores exist because they historically followed lease accounting. However, in terms of actual cash flow, there is an additional 450 crores available. We are highlighting that the reported numbers are lower by 450 crores compared to normal accounting practices.

Paramita – Avendus Park: Understood. My next question is regarding a past dispute between the client and the Punjab state utility regarding coal transportation and washing charges. Have all those issues been closed? Will we get all variable costs as a pass-through going forward?

Management: While doing the transaction, we ensured that major ongoing issues are either closed or appropriately factored into the valuation. Some regulatory issues are still pending but have been considered in our assessment.

Paramita – Avendus Park: To rephrase, will all actual fuel costs, including coal from MCL and transportation, be factored in?

Management: Yes, we have factored in those costs. Any outstanding regulatory issues have been appropriately accounted for in the deal terms.

Paramita – Avendus Park: You highlighted the opening remarks regarding potential upsides, such as expansion and higher IRRs. Could you repeat the points regarding O&M; and Station Heat Rate?

Management: We have been conservative in our projections. We have budgeted for higher O&M; expenses compared to their actual historical spending. We have also factored in some SHR degradation, though technically the plant may not show much. We have also assumed lower fly ash income in our projections compared to what is possible. These are the conservative cushions we have built into our model.

Paramita – Avendus Park: Thank you so much for answering my questions.

Operator: Thank you. As there are no further questions, we have a last-minute registration from the line of Anuj Upadhyay from Investec. Please go ahead.

Anuj Upadhyay – Investec: Hi, thanks. Just a clarification: the 4,100 crores of funding would be through debt. Is that what you mentioned?

Management: It will be a mix of debt and internal accruals, but yes, a major portion will be debt-funded.

Anuj Upadhyay – Investec: For project valuation purposes, should we consider a standard 70:30 debt-to-equity ratio?

Management: It will depend on the cash flow at the time of consummation, but a major portion will be debt. The 70:30 rule may not strictly apply here given it is an acquisition.

Operator: Thank you. Our next question comes from the line of Satyadeep Jain from Ambit Capital. Please go ahead.

Satyadeep Jain – Ambit Capital: Thank you. Regarding fly ash income, you mentioned there is potential for an increase. Usually, these are long-term contracts with companies like Ultratech and Ambuja Cement. How do you plan to increase this, and what is the current realization?

Management: We won't be able to share exact numbers due to confidentiality. However, the existing contracts allow for certain escalations on a yearly or 5-year basis. In our base projections, we have considered lower escalations than what the contract provides for, which gives us an upside.

Satyadeep Jain – Ambit Capital: Okay, understood. So the potential is based on the contractual escalations.

Management: Exactly.

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

Management: Thank you everyone for joining the Nabha Power acquisition call. Thank you so much.

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