"Adani Power Limited
Q4 FY'24 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day and welcome to Adani Power Limited Q4 FY '24 Earnings Conference Call on hosted by ICICI Securities. Please note all participants, all media participants to disconnect as this call is only for analysts. As a reminder all participants lines will be in a listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded and I'll hand the conference over to Mr. Dilip Jha, CFO of Adani Power. Thank you and over to you sir.

Dilip Jha: Yes, thank you. So good afternoon, friends. This is the first time I'm addressing investors and analysts for Adani Power and I must say that I am very much excited to talk to you all. I also have here with me my colleagues, Mr. Shailesh Sawa, Nishit Dave and my finance team. Our CEO, Mr. S.B. Khyalia could not join this call due to some exigency, and he conveys to you all his regards.

To give a brief introduction of myself, I have been a part of Adani since 2010, working in various roles over the years. Before taking the charge of CFO of APL, I was Finance Head of the Integrated Resources Management business of Adani Enterprises Limited.

I will now take you through the performance of the Company during the recently concluded quarter and financial year. I hope you have been able to go through the analyst presentation for the quarter and financial year that we have published on our website.

Adani Power has capped a year of outstanding operational and financial performance with another strong quarter, posting excellent revenue and earning growth. We have seen a superb revival of PLFs in power plants based on imported coal, high level of power uptake from domestic coal-based PPAs, and higher utilization of merchant capacity. During the recently concluded quarter, APL reported a handsome growth in PLF and power sales volume.

PLF improved from 52% in Q4 FY '23 to 72% in Q4 FY '24. Power sales volume grew by 55% from 14.3 billion units to 22.1 billion units in this period. This figures for FY '24 include the contribution of the Godda Power Plant, which was commissioned in Q1 of this year.

On a full year basis, APL achieved PLF of 64.7% and power sales of 79.3 billion units for FY '24 in comparison to 47.9% and 53.4 billion units respectively for FY '23. Our import coal-based plants at Mundra and Udupi have benefited from moderation in international coal prices, which improves their merit order position. As you may be aware, we now have efficient fuel cost recovery in PPAs with Gujarat.

Our plants based on domestic coal also operated with high PLFs, both in case of PPAs and merchant capacity, due to the continuous demand growth being witnessed across India. The locational advantages these plants enjoy gives them a competitive edge in the market. Needless to say, we have also maintained very high uptime of our power plants across the board.

Now, coming to the financial performance. Previously, we used to report a good portion of revenues in the form of prior period regulatory items. However, we have moved past that phase after satisfactory conclusion of major regulatory matters in FY 2023-24. Now, there is very little impact of prior period revenue recognition on the revenues for the fourth quarter. So, what you see in the quarterly figures is pretty much steady state performance.

However, to remove any ambiguity, today we will focus on continuing revenues and continuing EBITDA to evaluate core earnings. On a purely continuing basis, consolidated revenues posted by APL grew by 29% to INR13,787 crores for Q4 FY '24 as compared to INR10,664 crores for the corresponding quarter of FY '23. There is an effect of lower import coal prices on the PPA tariffs realized during this quarter. Similarly, continuing consolidated revenues for FY '24 were higher by 37% at INR50,960 crores as compared to INR37,268 crores.

Fuel costs for the fourth quarter of FY '24 were 2% lower than cost for the corresponding quarter of FY '23 due to lower import prices. At the same time, there is an improvement in fuel cost recovery under PPA tariffs with the regulatory approvals we have received. As a result, the continuing EBITDA for Q4 FY '24 grew impressively by 126% to INR5,273 crores as compared to INR2,329 crores in FY '23.

Similarly, the continuing EBITDA for full year FY '24 is higher by 120% at INR18,789 crores in comparison to the continuing EBITDA of INR18,540 crores for FY '23.

We have judiciously used the cash flow from operations and from regulatory recoveries to reduce debt through repayments. As a result, even though the interest on the project finance loan for Godda is now being charged to P&L, consolidated finance costs for Q4 FY '24 grew only moderately.

The company's creditworthiness has improved sharply as marked by credit rating upgrades from A to AA family i.e. AA-. The factors behind this are a high degree of revenue visibility and fuel security, and a lasting improvement in profitability, which is coupled with de-risking of the balance sheet due to our deleveraging exercise.

The profit before tax reported for the quarter achieved a striking growth to INR3,558 crores as compared to INR898 crores achieved last year.

After considering one-time items, the reported profit before tax for FY '24 is INR20,792 crores as compared to INR7,675 crores for FY '23. On the continuing basis also, FY '24 PBT is INR11,470 crores as compared to INR1,903 crores for FY '23.

During the previous year i.e. FY '23, we had certain reversals consequent to the scheme of amalgamation becoming effective, which had enhanced our already healthy Profit After Tax. Some of these adjustments were made during Q4 FY '23.

Now, due to this, even though the PAT reported for Q4 FY '24 looks optically lower at INR2,737 crores, I am sure you all will agree that it is a very healthy figure. For full year FY '24, the PAT is INR20,829 crores as compared to PAT of INR10,727 crores for full year FY '23, which shows a strong 94% rise.

The company has ended the year on a strong note with a much higher net worth and low leverage, which sets the stage for its growth plans. It is now a solidly profitable and agile power producer with high liquidity, a modern and efficient fleet and low risk.

I will also talk briefly about the outlook of the power sector and our growth plan.

All of you have your finger on the pulse of the economy, and you understand its growth dynamics and potential very well. India's power demand is also rising rapidly as economy activity and prosperity grow. In fact, as we can see now, the demand is set to rise faster than the government's outlook that was published less than two years ago.

Peak power demand is expected to reach 260 gigawatts this summer. Even while renewable power capacities are growing, India will need more thermal power to meet this rising demand. Looking at this, the government has issued directives to ensure adequate fuel supply for thermal power plants and to maximize their uptime. It has also raised its projections for incremental thermal power installation from 50 gigawatts to more than 80 gigawatts.

Adani Power, as India's foremost private power producer, is very well placed to benefit from the long-term power demand outlook. Various DISCOMs have already announced their intention to invite bids for long-term PPAs from thermal power projects.

We will look to tap into these opportunities through ground fuel expansion of our existing power plants on a selective basis. All new capacity to be set up by us will utilize ultra-supercritical technology to improve efficiency and reduce emissions.

As you are aware, we are already executing a 1600 megawatt expansion project at the Mahan plant at Singrauli, MP. We have recently initiated the development process for expansion of Raigarh power plant, which we plan to set up 1600 megawatt thermal power capacity in Chhattisgarh.

We are also evaluating several inorganic growth opportunities, and we have announced progress in two of them. That is Coastal Energen and Lanco Amarkantak. We expect to receive NCLT approvals for these two companies soon.

Taking the organic and inorganic growth opportunities together, we plan to take our generation capacity to over 24 GW in the coming years. We are highly confident of achieving timely projecti execution and turnaround by leveraging our core strengths and delivering value-enhancing investments to our stakeholders.

I look forward to sharing and discussing our progress in detail with you all in the years to come. Thank you, and now over to you, Moderator, for questions and answers.

Moderator: Thank you very much. The first question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Yes, so thank you so much and congratulations on good numbers. My question is on a new capacity. Can you talk about how much existing capacity you already have which is not tied up with PPA, and what is the plan for new capacity commissioning in terms of timeline, which is without a PPA?

Shailesh Sawa: The current operating capacity is 15.25 GW, and as Mr. Dilip Jha mentioned, we are currently executing 1.6 gigawatt capacity at Mahan is good to get commissioned by FY 27-28.

Puneet Gulati: Does it have any PPA for this 1.6?

Shailesh Sawa: Yes, it has a PPA for close to 83% of the total capacity of 1.6 GW. Now, another plan which CFO spoke about is Raigarh brownfield expansion, where, as he also mentioned briefly in his speech, some DISCOMs have invited bids for PPAs and some more will come. . I am sure when our plan finally fructifies, more bids for PPAs will come and we will wait for that, and if at all we are not successful bidders, as you know, the open and merchant spot market has been very strong, and we can go for either of the two options that is the spot market, merchant market, or we can tie those capacities also in the short-term or medium-term PPAs.

Puneet Gulati: But what would be your preference, a long-term PPA or a medium-term PPA?

Shailesh Sawa: We will keep a balance, but largely it has to be a long-term PPA.

Puneet Gulati: Okay. And just following up on this, if I may, NTPC, for example, already has some old signed PPAs which it will revive, and Coal India also is not talking about new thermal plants. Do you think there is enough demand for a non-Coal India, non-NTPC kind of DISCOMs who will sign PPAs? Is there enough demand for thermal sites?

Shailesh Sawa: Absolutely. Mr. Jha spoke about the thermal capacity to go up to 80-85 gigawatts and I think there is enough scope for the absorption of the capacity which will get added.

Puneet Gulati: Understood. That's helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Nikhil from Bernstein. Please go ahead.

Nikhil: Hi. Thank you for taking my question. Firstly good set of numbers, good to see that. In terms of merchant capacity expansion, it seems like an excellent strategy for the coming few years. But beyond that, do you see a risk of limited offtake as batteries pick up, pump storage comes online and excess solar generation is there in the afternoon?

Shailesh Sawa: We are not going so aggressively. Currently, we know that there are some bids for PPAs that are being invited and we are in the state of preparedness.

It's not that the entire capacity that we'll be building will remain merchant. So, we'll go step by step, we'll have clarity and then we'll go further on that, but as we speak right now besides Mahan, where a PPA is already in place for 83% of the capacity, for Raigarh, , we are looking at the opportunities and we'll try to tie up the capacity under long term PPAs. But for some reason it doesn't happen, as CFO mentioned in his speech, we have options to go in the open market as well as medium term markets.

Nikhil: Got it. The second question I had was good to see the realization in the merchant market above INR6 for the Jan to March quarter, but when you look at the price in the power exchange for Jan to March they were quite a bit lower than that. Would it be fair to assume that a bulk of the sale in the merchant or the short term market happens through bilateral agreements rather than the exchange? And is it a similar expectation for the April to June quarter as well?

Shailesh Sawa: As far as Q4 is concerned, yes, your assumption is right, but in future we'll have to see.

Nikhil: Got it. That's helpful. And the third question I had was regarding the inorganic opportunities that you were referring to Coastal Energen and Lanco Amarkantak, would the company be looking to explore other big ones like KSK Mahanadi etc as well if the process for them moves ahead?

Shailesh Sawa: Yes we do keep evaluating the various opportunities which are coming in the market and the basis of our analysis and the price at which they are available, we'll go for them, but nothing specific about any project. The opportunities come we evaluate and then take a call whether to go for them or not.

Nikhil: Thank you. Those were my questions.

Shailesh Sawa: Yes thank you.

Moderator: Thank you. The next question is from the line of Akhilesh Bhandari from Millennium Capital. Please go ahead.

Akhilesh Bhandari: Hi, sir. Thank you for taking my question. So, firstly on the fuel cost. So, the average fuel cost per unit in this period was 3.33 per unit. Considering the current spot prices as well as the inventory which you already have at the plant, is there a scope for further reduction as compared to this level or is it expected to broadly remain the same?

Shailesh Sawa: See, we have three sources of coal, actually. One is under the long-term FSAs what we have against the PPAs. Secondly, e-auctions and third is imported fuel. These are the three sources. So, as far as FSAs, long-term FSAs are concerned in fact that price is driven by CIL and once in a few years they do have an escalation, but we don't see any steep increase in that.

Auction coal depends on basically demand and supply and as far as imported coal is concerned we have seen the prices softening up in the last 15 months or so. And we believe that it will eventually settle at $90, $100 per ton. So, we don't expect any further significant reduction in this. And for a substantial part of our PPAs we have a coal cost pass-through. So, to some extent, it does not really affect us in case there is any movement in the fuel price.

Akhilesh Bhandari: Yes, I was just trying to understand from the merchant profitability standpoint. So, secondly, what about the prior period revenue?

Shailesh Sawa: Let me further add as far as merchant goes, most of our plants are near the pithead. So, we have a substantial saving in transportation cost and that gives us a good advantage.

Akhilesh Bhandari: Got it. Sir, from looking at the prior period revenue so how much of the prior period revenue which we have booked till now, how much of that has already – the cash is already coming from the DISCOMs? How much is left? And is there any matter which has been referred to the higher authorities or everything is now done?

Shailesh Sawa: As far as FY23-24 is concerned, the one-time amount that was recognized is INR9,322 crores. And over a period of time whatever amount has been recognized in the books of accounts has by and large been realized and we don't expect any large amount further to be received or to be recognized in the books of accounts.

There are a few issues which are currently under various regulatory forums, but I don't see that affecting us significantly.

Akhilesh Bhandari: But the cash is already being received that would be a fair assessment?

Shailesh Sawa: Yes we don't have any large amount outstanding from any of the DISCOMs in terms of the any past regulatory receivables.

Akhilesh Bhandari: And sir sorry if I missed this if you had mentioned this earlier, but currently what is the capacity quantum which is not tied up on the long-term PPA and if you can give some color on the short-term contracts which you have, which are already ongoing for the next maybe couple of quarters or for the summer quarter?

Shailesh Sawa: We don't generally share this information because we look at this basis the entire integrated revenue model. And some of it has been already given in the PPT which was uploaded on the website. Open capacity now that is untied, is about 2.1 GW.

Akhilesh Bhandari: And sir when is the supply expected to begin under the PPA which we have tied up with Reliance?

Shailesh Sawa: Most likely in this month itself.

Akhilesh Bhandari: Okay understood. Thank you. That were my questions.

Moderator: Thank you. Next question is from the line of Nikhil Abhyankar from ICICI Securities. Please go ahead.

Nikhil Abhyankar: So sir we have witnessed a new - so we just had a new tariff order in FY24. So, are there any benefits in terms of cost savings? And if there are any then what is the quantum of it?

Shailesh Sawa: Which tariff order are you talking about?

Nikhil Abhyankar: So, the tariff order, the CERC tariff order?

Nishit Dave: Nikhil, Nishit here, are you talking about the five-year period tariff order? So, that actually is the order for the tariff control period. And what was your question regarding that.

Nikhil Abhyankar: So, are there any opportunities for increased cost savings as per the new regulations and if there are any what is the quantum of it? If you have any estimate?

Shailesh Sawa: No, there are no such any implication.

Nishit Dave: Nikhil, we only have the Udupi PPA with Karnataka which is 1080 megawatts that is under section 62 to which this applies and there we are still actually in the previous tariff control period. The true-up related work is yet to be done and after that the current tariff period implication will start.

Nikhil Abhyankar: And sir you mentioned about your capacity targets of around 24 gigawatts. So, what is the timeline for this target?

Shailesh Sawa: See, this has two components, organic and inorganic both. As far as inorganic growth is concerned as you know, NCLT approval maybe coming in some time for Coastal and Amarkantak, where - we have already got the LOI and we are expecting the NCLT order soon.

So, these are already within this number. And the Brownfield expansion at Raigarh which is currently we just started working on it and Mahan phase two where the implementation only started about three months back.

Such expansion will take about three and a half years to four years or so and accordingly we will reach this capacity.

Nikhil Abhyankar: Okay. And the Mahan 2 what will be the total capex for this project?

Shailesh Sawa: Mahan Phase-II's total capex is INR13,500 crores.

Nikhil Abhyankar: And so, all the ordering for this plant is done?

Shailesh Sawa: Yes major packages have been ordered, including BTG with BHEL.

Nikhil Abhyankar: And sir you mentioned that the Godda receivables are substantially reduced after the stabilization, so if you can mention the exact actual numbers?

Shailesh Sawa: Yes, the outstanding range is just over three and a half or four months, i.e. close to about four months, and the current outstanding which is due is about close to around USD400 million or so.

And in fact happy to inform you that in last two months, we have received substantial amount and the receivables have come down significantly now. In this month alone, we have received USD136 million as against our monthly billing of USD90 million.

Nikhil Abhyankar: 33 we have received against the billing of 90 or 19?

Shailesh Sawa: No, on an average monthly billing is about USD90 million And this month alone we have received about USD136 million and the inflow has gained momentum now because initially they had to set up certain processes and other procedures and take necessary approvals. Now that SOP is in place, going forward we do not expect this amount to further pile up.

Nikhil Abhyankar: Thank you. And I will get back in the queue.

Shailesh Sawa: Yes. Thank you.

Moderator: Thank you. The next follow-up question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Yes. Thank you so much. My question is on this new PPA tie-up that you have done with Reliance. How should one think about the economics of the same? Is it a fixed ROE kind of project for you or is there a room to make higher margins in certain circumstances? Can you talk about it?

Shailesh Sawa: Let it get operational. Let it get started by end of the month. In Q1 we should give you the complete details about it.

Puneet Gulati: Okay. Thanks.

Moderator: Thank you. The next question is from the line of Bhavya Gandhi from Iwealth. Please go ahead.

Bhavya Gandhi: Yes. Hi, sir. Congrats for a good set of numbers. One data point I was just requiring that. What is our capex plan for FGD in the current year?

Shailesh Sawa: See, the FGD orders for all capacities have been placed now and the timeline to complete this is December '26. Depending upon the requirement of the EPC contractor, the funds will be released. Also, it is very important that we have a full clarity about the cost recovery. We are all ready to implement the projects.

Capex requirement will be as per the progress made by the EPC contractor and in terms of our contract with them, they are required to execute the entire order by June 26 or Q2 of FY26-27.

Bhavya Gandhi: And, sir, any ballpark capex for one megawatt? Is there any ballpark number to it?

Shailesh Sawa: It depends and varies from project to project. It has a huge range actually. So, it will be misleading if I say INR60 lakh per megawatt or INR30 lakh per megawatt or INR1.1 crore, per megawatt. It depends on project to project.

Bhavya Gandhi: Okay. Thank you and all the best, sir.

Shailesh Sawa: Thank you.

Moderator: Thank you.

Shailesh Sawa: Ladies and gentlemen if there are no further questions then one point I would like to highlight at the end.

Moderator: As there are no further questions I would now like to hand the conference over to management for closing comments.

Shailesh Sawa: Yes. Thank you for the questions and interest in the company. Before we close, I would like to highlight one point. In the print media and on the net one thing what has been reported is that our profit for the last quarter, i.e. Q4 this year as compared to the previous year has come down by about 47% which is actually not fully correct, and needs to be explained because if you look at the profit before tax for Q4 FY23 we had a profit of INR898 crores as against profit before tax for Q4 FY24 which was Rs. 3,558 crore, clocking a growth of 296%.

Now, the profit for this year is on a steady state, but last year in Q4 of FY23 because of the effect of amalgamation of six subsidies with Adani Power Limited, there were certain provisions which got reversed, and that was to the tune of INR4,325 crores. So, in Q4 FY23 the profit before tax of INR898 crores went further up after reversal of these provisions to INR5,242 crores which is not a cash item but it was only a book entry, required because of the effect of the merger.

So, this point, I thought I must drive home that number of the profit number of this year is very high, but because of only the one-time adjustment of INR4,345 crores the net profit of Q4 FY23 looked higher. So, I thought I will take this opportunity to clarify this and in case you have any further doubts about it, any clarification if you want we are happy to answer.

Thank you so much for your interest and we look forward to speaking to you, interacting with you in Q1 next year. Thank you so very much.

Moderator: Thank you. On behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.