Adani Energy Solutions — BUY

Wired for the future

Summary

We initiate coverage on Adani Energy Solutions (ADANIENS) with a BUY rating and a TP of Rs1,195/share. AESL, with presence in various facets of the energy domain is a leading energy solution provider in transmission and distribution segments. AESL is well-poised in the smart-metering business and chasing growth via the energy solutions business. With a strong order book in smart meters' division and work-in-hand in the transmission divisions, we project an EBITDA CAGR of 33% over FY23-27E, we believe AESL has a strong EBITDA visibility for the future.

Key Highlights and Investment Rationale

- **Large market size opportunity in transmission space:** AESL built up a significant regulated asset base and has consolidated its position into the competitively-bid transmission space. Capitalizing on the Rs9Tn transmission opportunity which is set to be bid out across FY24-FY32, AESL has a robust work-on-hand of ~Rs600Bn which it is set to execute over the next few years. Additionally, states have also started showing interest in the TBCB route, which further expands the addressable market size.
- **Distribution and Smart Meters:** AESL operates the Mumbai DISCOM under AEML, which consistently ranked the top DISCOM across India, and has a growing user base with a high potential to absorb price escalations. With 104Mn smart meters up for bidding, AESL is favorably positioned to receive robust cash flows for the next 6-7 years.
- **Initiate with BUY:** We are bullish on AESL's strong execution and industry tailwinds. This is expected to translate into robust cash flows in the future. AESL maintains credit rating of BBB- and has strong capital management in place. Owing to this, we initiate coverage on AESL with a BUY recommendation with an SoTP based target price of Rs1,195/share.

TP	Rs1,195
CMP	**Rs1,022**
Potential upside	17%

Price Performance (%)	-1m	-3m	-12m
Absolute	10.0	31.8	16.4
Rel to Sensex	8.8	26.4	6.9

Key Stock Data	
Bloomberg / Reuters	ADANIENS IN /ADAI.BO
Sector	Transmission & Distribution
Shares o/s (mn)	1,201
Market cap. (Rs mn)	1,227,350
3-m daily average value (Rs mn)	112.4
52-week high / low	Rs 1050 / 588
Sensex / Nifty	84,951 / 26,013

V/s Consensus		
EPS (Rs)	**FY26E**	**FY27E**
IDBI Capital	15	29
Consensus	24	29
% difference	*(36.6)*	*(0.9)*

Shareholding Pattern (%)	
Promoters	71.2
FII	13.1
DII	9.9
Public	5.8

Financial snapshot (Rs mn)

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	1,32,927	1,66,074	2,37,671	2,42,174	5,32,352
Change (yoy, %)	*18.1*	*24.9*	*43.1*	*1.9*	*119.8*
EBITDA	45,176	61,712	84,073	88,565	1,41,954
Change (yoy, %)	*7.4*	*36.6*	*36.2*	*5.3*	*60.3*
EBITDA Margin(%)	*34.0*	*37.2*	*35.4*	*36.6*	*26.7*
Adj.PAT	2,450	11,373	24,007	18,411	35,000
EPS (Rs)	2	10	20	15	29
Change (yoy, %)	*(56.3)*	*364.2*	*96.0*	*(23.3)*	*90.1*
PE(x)	464	100	51	67	35
Dividend Yield (%)	-	-	-	-	-
P/B (x)	10	9	6	5	4
RoE (%)	2.3	9.3	13.8	8.0	13.6
RoCE (%)	6.3	8.6	10.9	8.1	11.2

Source: IDBI Capital Research

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AESL

- **Adani Energy Solutions Limited**

  Adani Energy Solutions Limited is a prominent private-sector player in the Indian power transmission and distribution segment and has established itself as the second largest player in smart meters. AESL's journey began as the transmission assets were transferred from Adani Enterprises limited in 2015. Over the years, AESL has transformed into an integrated energy solution provider. Company's strong foundation was originated from Adani Power Limited's (APL) construction of the first High Voltage Direct Current (HVDC) line from Mundra to Mahendragarh to facilitate power transport to Haryana. This project was recognized as the largest HVDC line built by any private player in Asia. APL's subsidiary Adani Power Maharashtra limited, also established transmission assets for the Tiroda Power Plant in Maharashtra.

- **Robust growth in transmission and distribution**

  AESL capitalized on growing opportunities for private participation in India's transmission sector, backed by stable regulatory environment and continuous government reforms. AESL firmly expanded by acquiring additional transmission assets from other entities including KEC, Kalpataru, Reliance Infrastructure, and GMR, contributing to market consolidation. The company has a rich experience in developing and operating transmission assets with a project cost of approx. Rs. 320bn, including both cost-plus and bid-based projects. During FY15-18, AESL enjoyed the largest market share in the bid-based projects, reaching 20%. It has secured projects like Khavda II A Transmission Ltd, designed to evacuate 7 GW of renewable energy from the Khavda Renewable Energy Park. The company plans to commission six transmission line projects over the next 3-4 years to facilitate the evacuation of 31.5 GW capacity in Khavda. The company further diversified by acquisition of Reliance Infrastructure's Power, Transmission & Distribution business in 2018 based in Mumbai, subsequently selling a 25% stake to Qatar Investment Authority (QIA) in FY2020. Its subsidiary, Adani Electricity Mumbai Limited (AEML), now serves over 13 million customers across a distribution network spanning more than 400 square kilometers, meeting more than 2GW of power demand.

- **Diversification into Smart metering and CaaS**

  AESL entered the smart meter market in 2022 by securing the BEST project, aiming to install a total 10.8 lakh smart meters. The company has since achieved a significant market share in recent smart meter bids and currently manages ten projects with an order book of 24.6mn smart meters, actively installing smart meters, in line with national deployment goals under the RDSS scheme. Looking forward, AESL is expected pivotal in supporting India's renewable energy transition. Additionally, AESL has diversified into "cooling as a service" and is exploring opportunities as a power solution provider for commercial and industrial businesses. Financially, AESL strengthened its balance sheet in FY25 by raising Rs84 billion through a Qualified Institutional Placement (QIP), allocating Rs28.5 billion for debt repayment.

Exhibit 1: Company Timeline

S. No.	Company
2006	Development of 220kV transmission line for Mundra Thermal Power Station
2009	Commissioning of First 400 kV transmission line (Mundra-Dehgam transmission line)
2010	Commissioning of FSC at Sami S/S to support evacuation system
2011	Commissioning of 400kV Mohindergarh-Bhiwani transmission line, Commissioning of 400kV Mohindergarh-Dhanoda transmission line
2012	Commissioning of First HVDC transmission line (±500 kV Mundra-Mohindergarh transmission line), Commissioning of 400 kV Tiroda-Warora transmission line
2013	Conversion of Mundra system into ISTS as a license company
2014	Commissioning of First 765 kV transmission line (Tiroda- Aurangabad transmission line)
2015	Demerger of Adani Transmission Limited (ATL) from Adani Enterprises Limited (AEL)
2016	Acquisition of GMR assets (MTSCL and ATSCL), Completion of 400kV Mundra- Zerda transmission line as an EPC contract
2017	Acquisition of Reliance Infrastructure Limited's assets (WTGL & WTPL)
2018	Acquisition of Reliance Infrastructure Limited's Power Generation, Transmission & Distribution Business in Mumbai.
2019	Acquisition of KEC asset, Commissioning of STL, RRWTL project
2020	Acquisition of Alipurduar Transmission Limited from KPTL, Acquisition of KVTPL (Kharghar Vikhroli Project)
2021	Acquisition of Warora Kurnool Transmission Limited from Essel Infraprojects Ltd, Acquisition of MUL
2022	Foray into Smart Meter Business by winning Bombay Electric Supply & Transport (BEST) project to install 10.8 Lakh Smart Meters.
2023	Received award of Letter of Intent (LoI) for Khavda II A Transmission Ltd, Won bid to install 7.7 Lakh "Smart Meters" for Assam Power Distribution Company Limited (APDCL), AESL enters the cooling solutions business
2024	Commissioned largest inter regional 765 KV Warora Kurnool Transmission Line, Won bid to install 41.2 lakh smart meters for Andhra Pradesh Discoms, Won bid to install 116 lakh smart meters for MESDCL Discom
2025	Adani Energy Solutions raised Rs 8,773 crore to fund the transmission and smart metering opportunity. AESL concluded the divestment of 500 MW of Dahanu power plant

Source: Company; IDBI Capital Research

Transmission: Connecting the Dots

- **T&D Story over the Years**

In order to understand the current scenario of the transmission and distribution sector (T&D) of India, it is imperative to understand the evolution of the grid in India, where the sector stands and what comes next. The industry has evolved from isolated power systems to now a unified and synchronously connected national grid.

Phase 1: Formation of State Grids and Voltage Escalation

Starting from a total generation capacity of 1362MW and highest transmission voltage of 132kV in 1947, the nation focused on developing State Grids, taking the highest voltage transferred to 220kV and later to 400kV for longer distances. This phase was marked by state-level enabled investment and expansion.

Phase 2: Regional Planning

As the state grids strengthened, the entire nation was demarcated into regions to facilitate transportation of electricity and integration of operations. The center classified the inter-regional lines as state sponsored, which led to construction of 55 inter-state lines. Additionally, in 1975, central generation utilities such as NTPC and NHPC came into existence. As new power generation plants were constructed, the demand for transmission lines followed suite.

Phase 3: Integrated National Grid

In 1989, PGCIL was instituted to focus on implementing central generation transmission systems, with the eventual focus on achieving synchronous links and voltage growth. As higher voltage was pushed for, HVDC lines were established for inter-regional transfer of power, with the first one charged in 1990. The emphasis was on minimizing transmission losses and optimizing Right-of-Way (RoW) costs. As the lines stabilized, the regional grids were interconnected with HVDC lines to form a single cohesive whole, achieving the One Nation, One Grid frequency.

Phase 4: Growth and Grid Strengthening

The total inter-regional transmission capacity grew dramatically from 5,750 MW from 2002 to 1,18,740 MW as of, 2024. The total length of transmission lines grew from 52,034 ckm at the end of 1985 to 485,544 ckm by the end of 2023–24. Similarly, cumulative sub-station capacity (220 kV and above) increased from 46,621 MVA/MW in 1985 to 1,251,080 MVA/MW by March 2024.

We believe, the future of the transmission sector shall be governed by the following:

- Installation of newer power generation capacity, with increased Renewable Energy penetration by players which are end-to-end integrated and can generate their own demand from end-users such as green ammonia, data centers, electricity intensive manufacturing and growing C&I needs.
- Continued optimization of regulatory support such as RoW, General Network Access (GNA), project bidding via Tariff-based Competitive Bidding mechanism (TBCB), Cross-Border Electricity Trade (CBET) etc.
- Introduction and democratization of new-age tech such as STATCOMs, UHVDC lines (source), hybrid AC-DC corridors, dynamic line-rating (source), real-time monitoring and hydrogen sector and EV sector coupling.
- Strong balance sheet players, with access to low-cost financing which enables the construction and upkeep of the transmission assets.

- **Installation of newer power generation capacity, with increased Renewable Energy penetration by players which are end-to-end integrated and can generate their own demand from end-users such as green ammonia, data centers, electricity intensive manufacturing and growing C&I needs.**

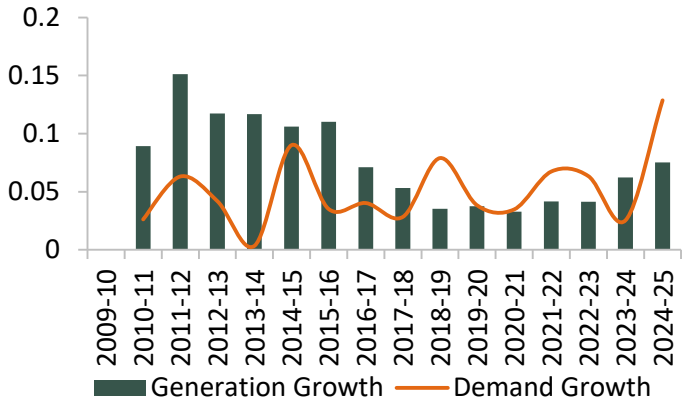
  Since the transmission lines and distribution facilities exist to transport power from where it is generated to where it is to be consumed; basis the distance and type of power generation source; it becomes imperative to look at the T&D sector, in tandem with the generation. It is the demand to evacuate power from generation centers which drives the transmission demand. Transmission lines and related infra are typically planned once the generation projects have been finalized.

  The Indian power generation sector is on a cusp of a major upheaval as the MNRE targets 500GW of renewable capacity by 2030 owing to strong demand, energy self-sufficiency and climate commitments. This implies a CAGR growth of ~6% per annum in installed power generation capacity. Contrary to the non-renewable energy model where the profit pool was shared by a long chain of players starting from the coal producer all the way to DISCOM, the renewable energy model concentrates the profit pool to the generator. The GoI is also exploring other renewable energy sources such as expanding nuclear and hydro capacities, investing in pump-storage and large-scale battery storage.

  Even as India has achieved universal access to electricity, the per capita consumption remains much below the global average and also lags behind on the electricity consumption per GDP basis. This presents a significant potential for sustainable growth in power demand. Newer and ever growing demand centers such as green hydrogen & ammonia, data centers, electricity intensive manufacturing, C&I demand, shall ensure the uptake of all this power generated.

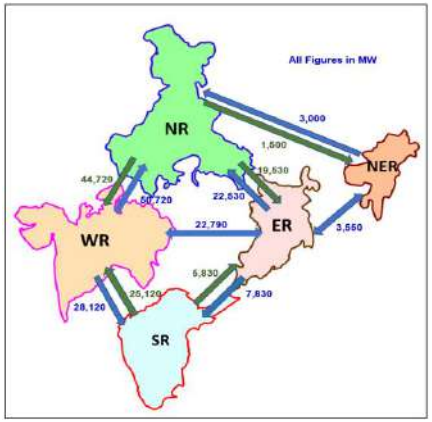
  This rise in renewable power generation capabilities calls for an extensive & robust transmission network to transport the renewable energy produced from the remote locations to the demand centers.

Exhibit 2: Power demand growth saw a sharp uptick in 2023-24 while generation growth took a tumble from 2015-16, but has started recovering from 2020-21. Higher demand and generation capacity stands to benefit the transmission sector



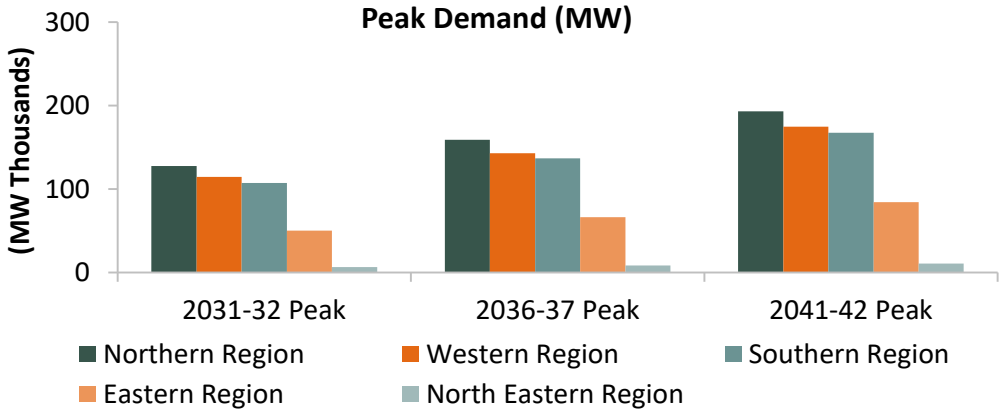
Source: Power Ministry, CEA, IDBI Capital Research

Exhibit 3: Details of approved Inter-Regional Corridor Capacity for 2029-30



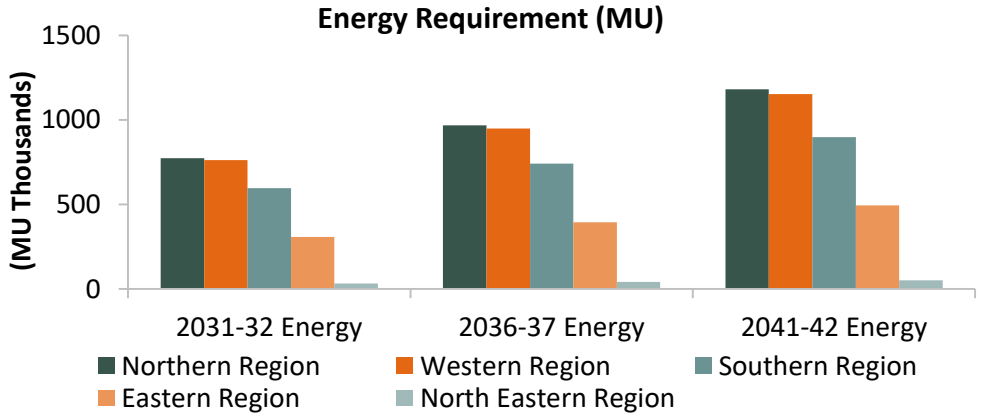
Source: CTUIL Rolling Plan, IDBI Capital Research

Exhibit 4:-The Electric Power Survey, 2020 predicts a CAGR growth in peak demand of 4.6% from 2032 to 2042, taking the peak demand to ~600GW



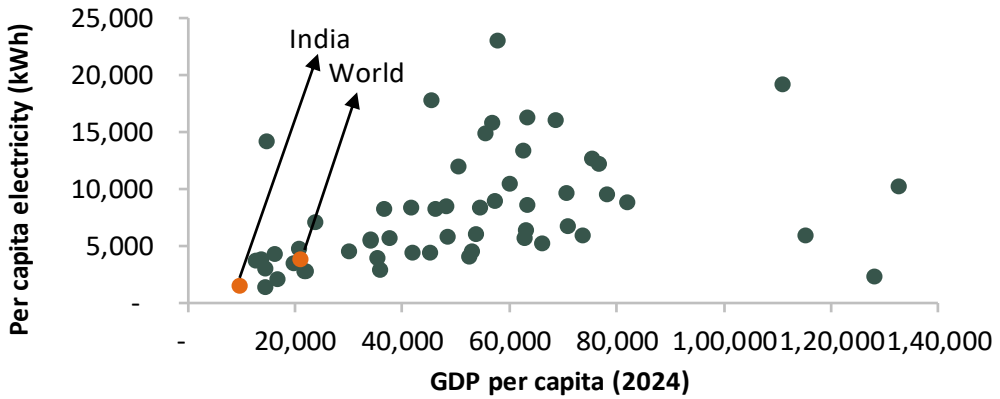
Source: EPS-2020, CEA, IDBI Capital Research

Exhibit 5:-The Electric Power Survey , 2020 predicts a CAGR growth in energy requirement of 4.3% from 2032 to 2042, taking the peak requirement to ~378GU



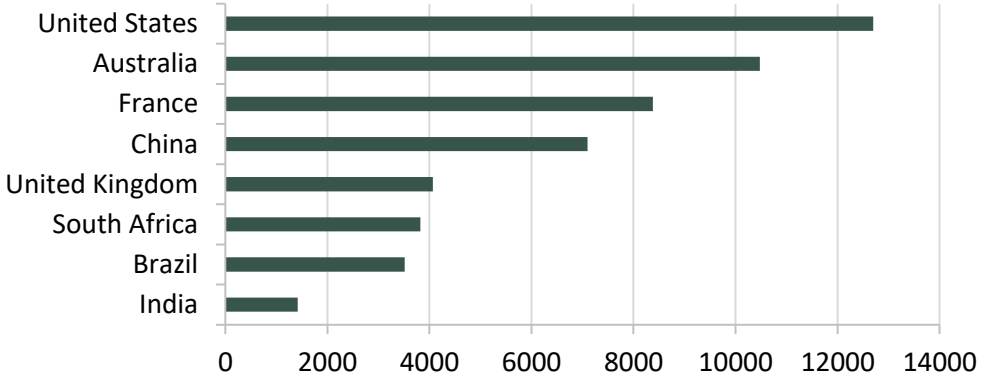
Source: EPS-2020, CEA, IDBI Capital Research

Exhibit 6: India stands much lower compared to other developing nations in per capita electricity vs GDP per capita



Source: Ember (2025), IDBI Capital Research

Exhibit 7: India's per capita electricity generation remains much behind developed & other developing nations, with plenty of room to grow



Source: Ember (2025), IDBI Capital Research

- **Continued optimization of regulatory support in the form of RoW, project bidding via Tariff-based Competitive Bidding mechanism (TBCB), TBCB push for InSTS & Cross Border Electricity Trading (CBET).**

  The Indian electricity sector had been riddled with vertically integrated state utilities and sector-wide monopolies across different sub-sectors. In both, transmission and distribution sector, the GoI has slowly encouraged private participation, by relaxation of existing laws and introduction of newer business model such as TBCB and gradual retirement of the Cost-Plus Model.

  While private participation & investment in the transmission sector has been allowed since 1998, the idea never took off, with PGCIL continually being the dominant player in transmission. However, in 2008, GoI introduced TBCB, which was an alternative to the then existing Regulated Tariff Mechanism (RTM) which was based on the cost-plus model.

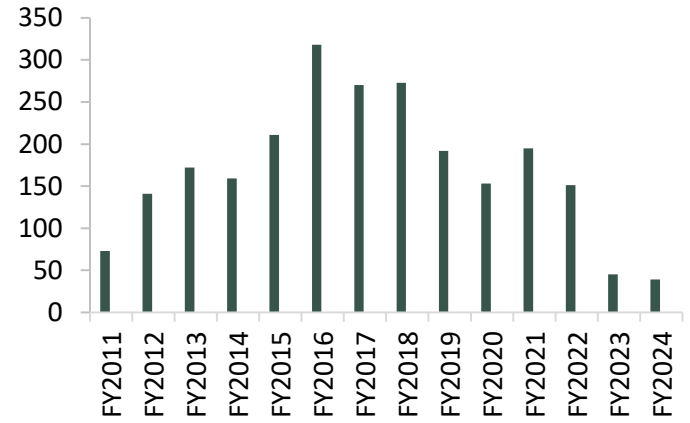
  Under the RTM, the projects were designated to the player, with an approved level of revenue, basis the Return on Equity, which ensured the project cost recovery and some allowable level of profit. Post 2011, the TBCB mode was made mandatory by law (excepting some cases, where RTM was followed). This levelled the playing field between PGCIL and other private entities, opening the sector to market forces. This step ensured market-driven profit levels, timely delivery of projects, reduction of load on government finances and cost-savings to the tune of 30-40% compared to Cost-Plus Tariff. (source)

  The revised guidelines led to the following:

  - **Change in Execution Model:** The business model shifted from BOOM (Build-Own-Operate-Maintain) model to BOOT (Build-Own-Operate-Transfer) model. This clarity on end-of-life ownership, while providing the GoI to ensure eventual ownership of critical infra, was a win-win for both public and private entity.
  - **Single Levelised Tariff Quoted:** Bidder quotes a single rate on a per annum basis, which is applicable throughout the contract period. This is in slight contrast to the earlier mode where different rates were quoted for different time-periods within the project lifecycle. This again streamlines the bidding process, reducing complexities.

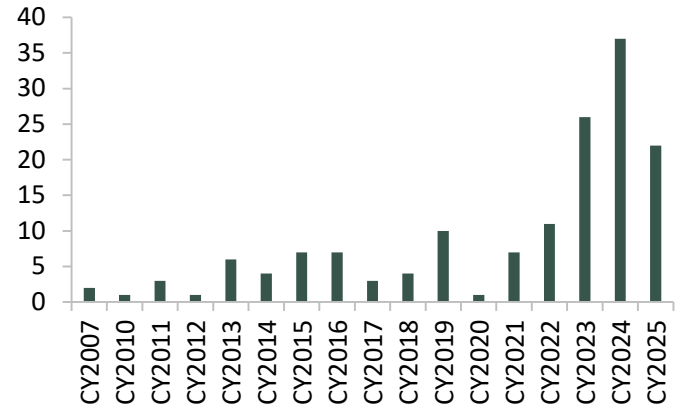
- **CERC Cost Sharing Regulations & Point of Connection Mechanism allowed for a single signatory on TSA:** Earlier the transmission bidder had to chase multiple parties from both the generation and distribution end, which bogged down the process. With the 2010 CERC regulation (Source), based on the Point of Contact mechanism, the CTU collects the charges from the end parties of both the sides (generation and distribution) depending upon their geographic region, injection and withdrawal from the system. The collected charges are then passed on to the Transmission player; which means the CTU acts as both the collecting and disbursing agency. This enables the transmission bidder to sign the TSA with a single party: CTU.
- **Reduced Equity Lock-in Period:** The new regulation reduced the lock-in period as well as the lock-in levels for the bidders. For 1 year after the Commercial Operation Date (CoD), the developer needs to hold 51% equity. Post that 1 year, the developer has no such holding requirements which allows the developer to exit from the investment if needed. This enhanced flexibility is a further attraction for the private players.

Exhibit 8: PGCIL witnessed a consistent decline in Cost-Plus projects as newer projects are bid solely via TBCB, with only critical projects qualifying a cost-plus



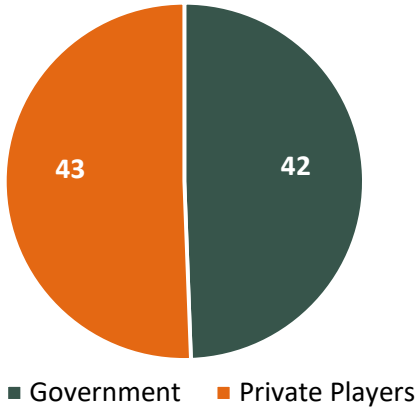
Source: PGCIL, IDBI Capital Research

Exhibit 9: The number of bids via the TBCB mode have been on a consistent rise, with a minor dip seen in CY2020, due to the COVID pandemic



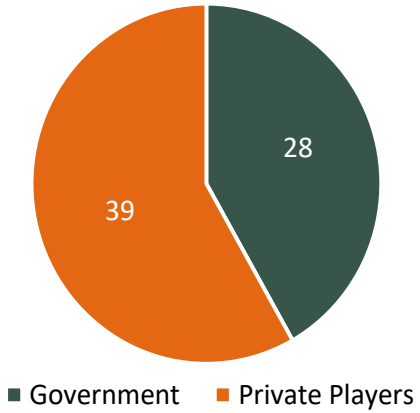
Source: CEA, IDBI Capital Research

Exhibit 10: Out of all the TBCB projects commissioned till date, the Private-Public mix stands at 50-50….



Source: CEA Monthly, IDBI Capital Research

Exhibit 11: … and the share of private players in under construction projects has surpassed the Public share. The GOI's push for private participation has been taking effect, with new players entering the TBCB bidding scene. The private participation is expected to rise further



Source: CEA Monthly, IDBI Capital Research

- **Introduction and democratization of new-age tech such as UHVDC lines (source), hybrid AC-DC corridors, dynamic line-rating (source), real-time monitoring and hydrogen sector and EV sector coupling.**

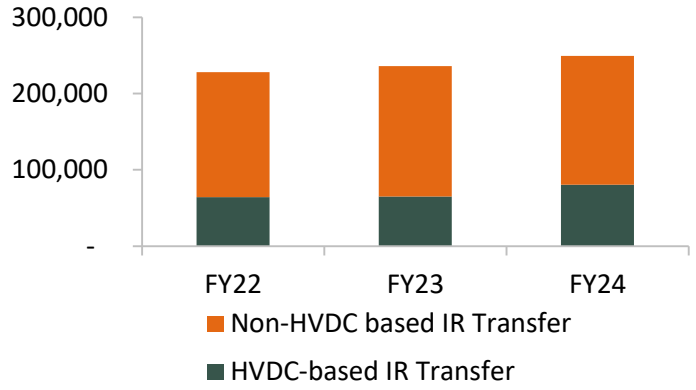
  As the Indian power grid further strengthens, newer technologies such as UHVDC lines, hybrid AC-DC corridors and dynamic line rating will gain presence. These are technologically intensive endeavors and require large amounts of capital. Players which are able to procure such technologies, either by way of R&D or partnerships, will stand to benefit in the future.

  - **Taking the case of HVDC lines, we have seen this phenomenon play out in the past.**

    Until the 2010s, the Indian power system operated asynchronously, with different regions, operating as islands, within at their own voltage levels. The Indian Power system was fully synchronized on 31st of December, 2013 when the Southern Grid was connected to the NEW (North-East-West) grid. During this period, the prominent player having the capacity to install such tech-intensive projects was PGCIL.

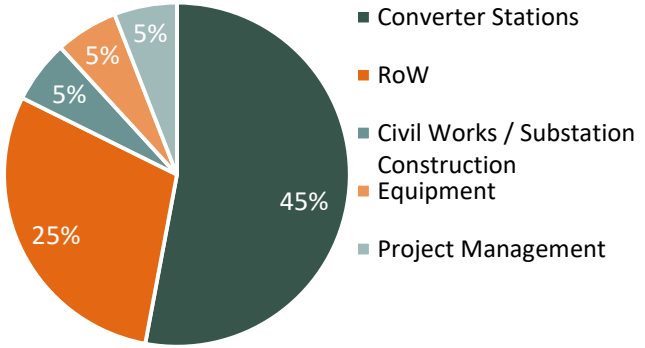
    We see a similar plot playing out now as India establishes more renewable energy centers in states such as Gujarat and Rajasthan and establishes Green Energy Corridors. The players which either already possessed the (U)HVDC tech or were nimble enough were early entrants and benefitted immensely due to lower crowding in bids. Additionally, the high cost of converter station technology, and greater distances (>600km) add up to higher RoW, which pushes the cost of an HVDC line higher. This itself acts as an entry barrier for newer players.

Exhibit 12: As the transmission capacity grows, the share of HVDC grows further, at a CAGR of 8%. With the swath of HVDC projects in the pipeline, this trend is projected to continue further



Source: Grid India, IDBI Capital Research

Exhibit 13: Rough cost breakup of HVDC Line: The converter stations capture the lion's share of input cost, followed by RoW, taking up 25% of total cost

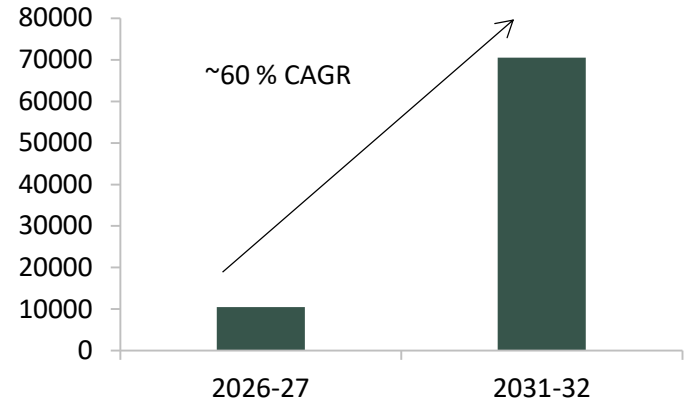


Source: MISO, IDBI Capital Research

- **Downstream technological innovations such as Green Hydrogen and Green Ammonia further exacerbate the demand for transmission services.**

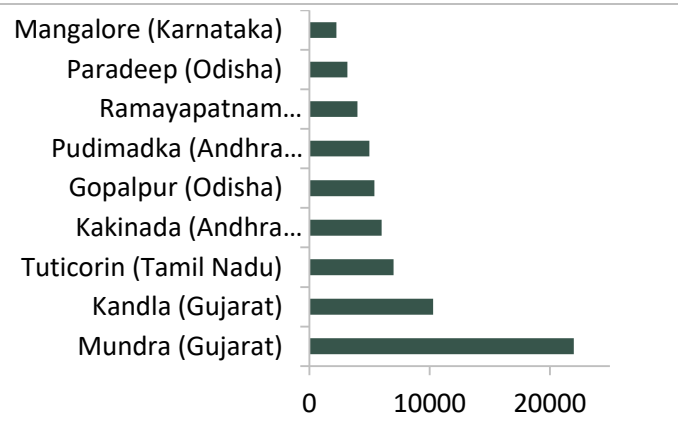
  Some estimates suggest the demand for these projects could touch 10.5GW by 2027. The National Green Hydrogen Mission aims to develop a green hydrogen production capacity of at least 5 MMT per annum by 2030. Dedicated transmission schemes are being planned to handle the envisaged bulk loads associated with this goal as the manufacturing hubs have been planned in coastal areas such as Gujarat, Odisha, West Bengal etc. The green hydrogen and ammonia supply is expected to substantially reduce electricity load during non-solar hours and benefit manufacturers which have Round-the-Clock (RTC) operations. The electricity demand would be roughly 45% during the evening peak and 55% during the night off-peak scenarios, relative to the afternoon solar generation scenario.

Exhibit 14: The MNRE projections indicate a demand CAGR of ~60% for Green Hydrogen and related fuels by 2032



Source: MNRE, IDBI Capital Research

Exhibit 15: Projected Green Hydrogen Demand, Region-wise, 2032.



Source: MNRE, IDBI Capital Research

- **Strong balance sheet players, with access to low-cost financing which enables the construction and upkeep of the transmission assets.**

  Owing to the technical complexities, increasing RoW costs and strict qualification criteria; only the players with strong balance sheets¸ access to low cost financing and superior execution will be able to survive in the future. Additionally, not just cheaper financing, but matching the interest payments with the construction cost outflows and tariff inflows is imperative for long-term survival. Delays in commissioning of projects, can affect debt servicing.

Adani Energy Solutions Ltd (AESL) – Foremost Private Transmission Player

Basis our 4-part framework, we believe AESL stands to be foremost beneficiary of the rising renewable energy demand, streamlining of regulations, use of better technology and financial strength.

- **AESL Foundation**

  AESL started off as ATL (Adani Transmission Ltd), constructing 4 RTM based transmission projects which were demerged from Adani Enterprise Ltd. These projects were intended to evacuate power from group's own power plants and generate a fixed Return on Equity of 15.5%. As the regulations streamlined and TBCB bidding picked up pace, AESL started bidding for transmission assets and acquiring transmission assets from other players.

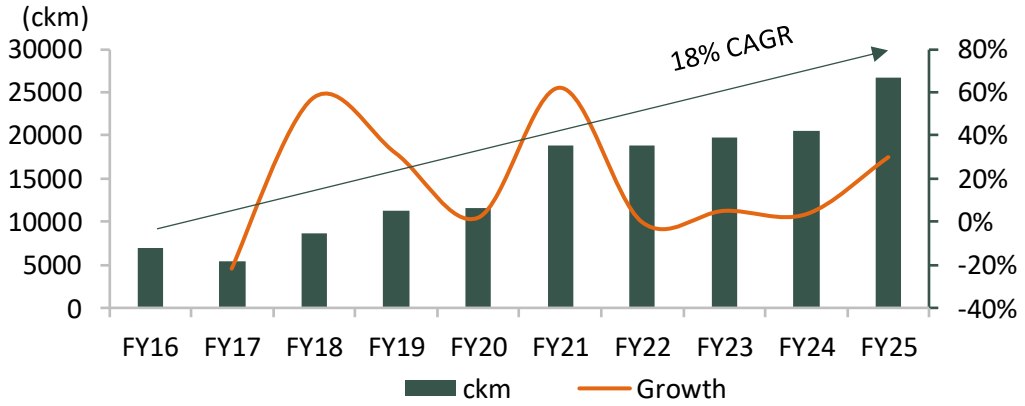
Exhibit 16: Asset Acquisition over the Years

S. No.	Company	Acquired from	Year	Levelised Tariff (Rs. mn)
1	Aravali Transmission Service Company LTD. (ATSCL)	GMR Infra	FY17	223
2	Maru Transmission Service Company LTD. (MTSCL)	GMR Infra	FY17	364
3	Western Transmission (Gujarat) LTD. (WTGL)	R-Infra	FY18	497
4	Western Transco Power LTD. (WTPL)	R-Infra	FY18	924
5	Adani Transmission Bikaner Sikar Private Limited (ATBSPL)	KEC	FY20	313
6	Alipurduar Transmission Ltd.	Kalpataru	FY21	1498
7	Warora Kurnool Transmission Ltd. (WKTL)	Essel	FY22	4096
8	KPS - 1 (Khavda Pooling Station)	Megha Engineering	FY24	862
9	Adani Transmission Step-Two Limited (ATSTL)	Essar Power	FY25	-

Source: Company; IDBI Capital Research

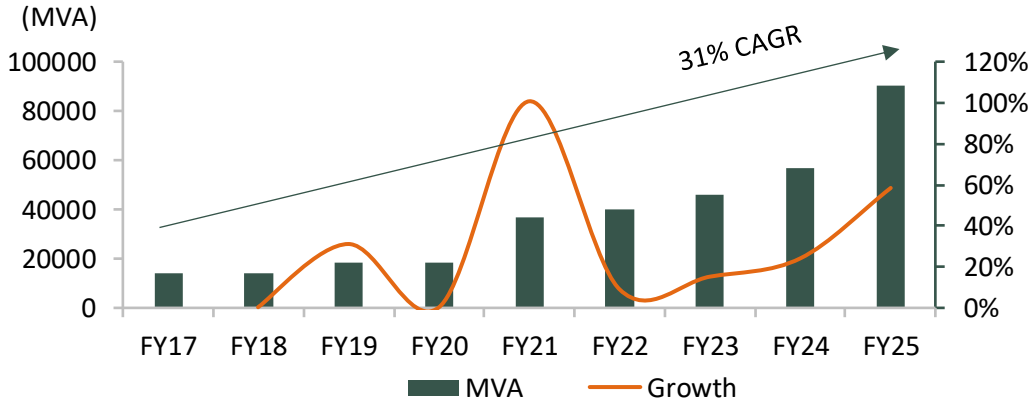
Currently AESL has a market share of ~28% in the number of under construction (UC) and commissioned transmission projects in India, with ~35% market share of the private projects. This makes AESL the largest private transmission player in India. AESL currently has 31 operational transmission assets, & 13 UC transmission assets, with the coveted Mumbai HVDC (under RTM model); with a mix of both ISTS and InSTS assets.

Exhibit 17: AESL has maintained consistent growth in ckm added each FY. The growth in ckm added took a massive hit during the COVID period, but rebounded swiftly. Lately, the growth rate has been steady, but again seen a sharp pick-up in FY25. With more assets expected to be commissioned this year, around ~1300 ckm of lines should be added



Source: Company, IDBI Capital Research

Exhibit 18: Similar story unfolds in the MVA added metric



Source: Company, IDBI Capital Research

- **Testament to Operational Excellence**

  AESL's ckm addition and MVA addition has grown at a strong CAGR of 18% over FY16-FY25 and CAGR 31% over FY17-FY25 respectively. This is a strong testament to AESL's operational brilliance, which we view as one of the key characteristics required for survival in this business. On time asset commissioning allows for timely matching of debt service commitments and start of levelised tariff inflow.

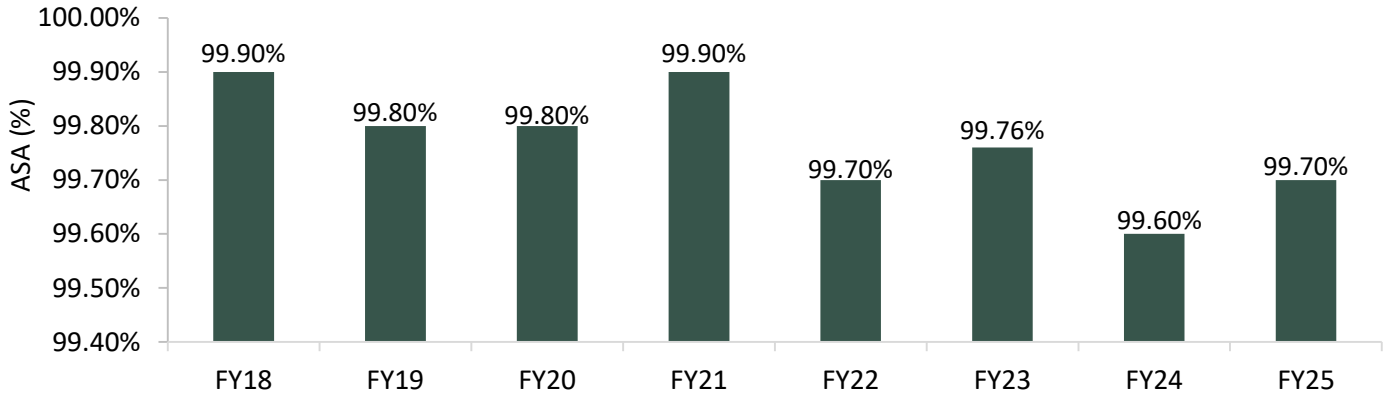
- **Bidding done Right**

  AESL further has 13 assets under construction, totaling Rs~60,004cr, which also includes the coveted Mumbai HVDC on RTM basis. In the newer bids, AESL exhibits two key features:

  - AESL has bid new projects which are either close to the solar parks in Gujarat or Rajasthan or closer to its existing transmission infrastructure. This becomes key in the future as the bidder itself has to maintain and operate the assets under the BOOT model. Geographical proximity makes it easier to maintain the asset, ensure maximum availability and uptime and lower O&M cost. This directly translates to incentive income basis the availability of the line.

- This transmission incentive is paid over and above the levelised tariff of the bid, which can range from 1-3% of tariff each year, on an asset to asset basis, with the cut-off being 98% of availability. This extra income can top-up the existing IRR by 50-60 bps.

Exhibit 19: Maintaining Strong Average System Availability (ASA)



Source: Company, IDBI Capital Research

Distribution: Benchmarking Efficiency in the Power DISCOM landscape

Power distribution has been the weakest link in the power supply chain. Due to the politically and socially sensitive nature of electricity pricing in India, the Distribution sector has been tightly regulated and held by the government. Inefficient operations, rising AT&C losses, unreasonable and outdated PPAs and poor infrastructure, have plagued this segment of the value chain. The current outstanding dues of the DISCOMs stands as ~Rs71,000 crores (Source: PRAAPTI). For the nation to attain its ambitious 500GW target by 2030, the distribution sector poses a major challenge as its dire situation implies the initiatives taken by the government fail to reach the end user because the DISCOMs are unable to invest in tech and contribute to the modernization of the grid. Additionally, the distribution sector not keeping pace with generation and transmission investments, could lead to abandonment of either of the resources and stymieing of the intended benefits reaching the consumer.

Time and again the government has attempted to resolve the DISCOM mess by timely and structured government intervention and schemes. With the latest set of regulations, the private players have found it lucrative to enter the DISCOM space, either via Privatization (JV Model) or Input-based Franchise Model with reduction of AT&C losses being one of the key bid criteria.

- **Government schemes and interventions**

  Reforms in the DISCOM space have been attempted, at several instances in the past. A quick summary of a few of them is as such:

  - **1991 – Liberalization of Power Generation:** This is when the GoI allowed private participation in the Distribution sector for the first time.
  - **2003 – Electricity Act:** The enactment of the Electricity Act 2003 replaced the earlier legal framework, promoting competition, efficiency, and private sector participation in the electricity industry. Lukewarm response was received. Quite a few DISCOMs did go private, but the losses continued to hobble the industry.
  - **2012 – Financial Restructuring Plan (FRP):** The government introduced the FRP to address the financial health of state-owned DISCOMs, aiming to reduce their debt burden. This plan focused solely on reducing the existing debt burden so that the agriculture and domestic sector power needs to could be covered; but did not call for any long term efficiency solutions.

- **2015 – Ujwal DISCOM Assurance Yojana (UDAY)**: Launched to improve the financial health and operational efficiency of DISCOMs through debt restructuring, operational improvements, and tariff rationalization. The UDAY scheme incentivized the DISCOMs to reduce AT&C losses and close the ASC-ARR gaps. On the financial front, the government assumed 75% of the debt burden, with the rest continuing to stay with the DISCOM, which helped in reducing the debt burden. UDAY was a more well-rounded scheme which encompassed financial support, operational efficiency and eventual long-term sustainability.
  - The UDAY scheme did have an impact on the ground, with the AT&C losses lowering for the next 2 years after inception. However, the losses rebounded as the Saubhagya scheme was launched which called for increased electricity penetration in the agriculture sector. Farmers are charged a lower/subsidized rate of electricity, which again led to financial stress building up.
  - However, in the larger scheme of things, we are of the view that UDAY scheme was instrumental in paving way for the currently ongoing RDSS.
- **2021 – Revamped Distribution Sector Scheme (RDSS):** Introduced in 2021 with an outlay of Rs3.04 lakh crore, RDSS focuses on reducing Aggregate Technical & Commercial (AT&C) losses to 12–15% and eliminating the Average Cost of Supply–Average Revenue Realized (ACS–ARR) gap by 2024–25. This was to be achieved by implementing a set of performance deliverables such as:
  - Reduction of AT&C losses to 12-15% by FY25.
  - Eliminate ACS-ARR gap by FY25.
  - Enable pre-paid smart meters for all consumers, and 100% system metering across distribution transformers and feeders.
  - Modernization of Distribution Infra.
  - Enforcement of strict financial discipline via PFC and REC, which appraise the project reports prepared by DISCOMs and release funding based on pre-qualified criteria such as timely tariff filing, acceptable levels of AT&C losses etc.

The plans outlined in the RDSS have been too ambitious as most of the objectives it set out to achieve have been missed. AT&C loss target of 12-15%, closure of ACS-ARR gap seem not possible within the prescribed timeline, although the national average has fallen and ACS-ARR gap is reported very close to 0 now. The smart meter roll-out has also lagged due to procurement and tendering delays. Several states have delayed tariff revisions due to political sensitivity.

Exhibit 20: Key Distribution Metrics indicate a superior operational performance of private players, with all metrics better than the national average

	India	Private	Public
AT&C Loss	16.12%	12.12%	16.38%
Billing Efficiency	86.91%	88.22%	86.82%
Collection Efficiency	96.51%	99.60%	96.32%
ACS-ARR Gap	0.39	-0.32	0.43

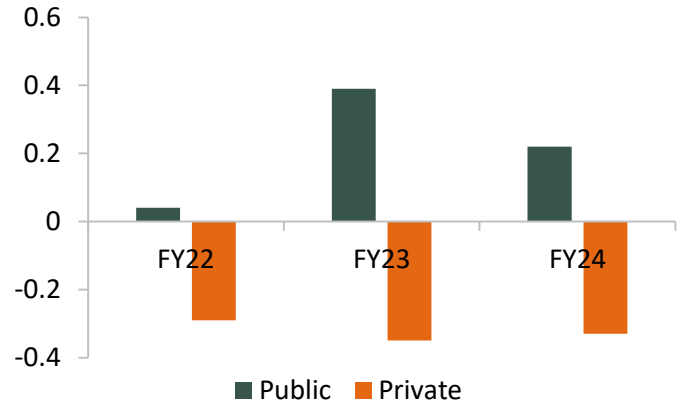
Source: PFC DISCOM Review, IDBI Capital

Exhibit 21: AT&C losses have been on a downward trajectory, as billing and collection efficiency improves, indicating a sectoral shift towards improvements in operations

	FY19	FY20	FY21	FY22	FY23	FY24
AT&C Loss	20.90%	19.90%	21.20%	16.39%	15.40%	16.12%
Billing Efficiency	84.00%	86.00%	84.80%	85.85%	86.76%	86.91%
Collection Efficiency	94.00%	93.10%	92.90%	97.38%	97.56%	96.51%

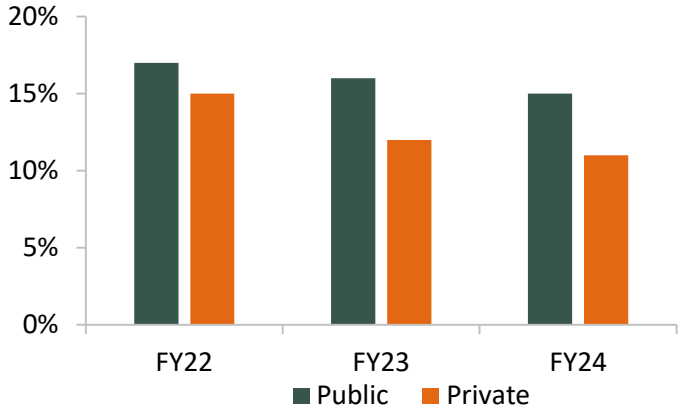
Source: PFC DISCOM Review, IDBI Capital

Exhibit 22: The ACS-ARR metric is the difference between the cost incurred and revenue booked on a per unit basis of electricity. Positive ACS-ARR has plagued the sector, but the private players have managed to turn negative ACS-ARR



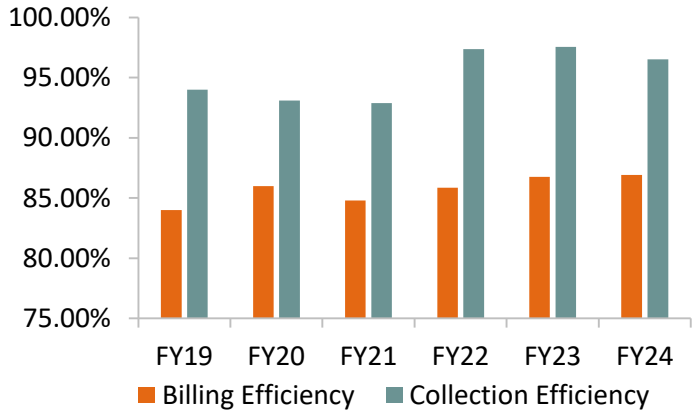
Source: PFC, IDBI Capital Research

Exhibit 23: AT&C loss, an efficiency metric, measures the electricity loss due to both technical reasons and due to commercial causes. The private sector has performed much better than the state DISCOMs



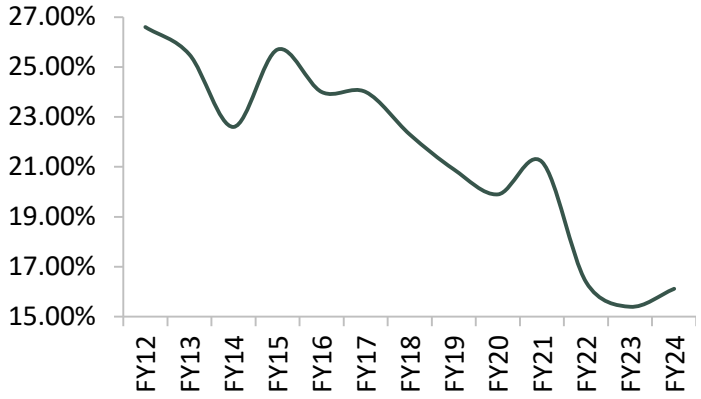
Source: Company, IDBI Capital Research

Exhibit 24: The collection efficiency saw major uptick after the RDSS was implemented in 2021, although it again saw a slight decline in FY24 on YoY basis. Billing efficiency has been in an uptrend



Source: PFC, IDBI Capital Research

Exhibit 25: At the national level, the AT&C losses have trended downwards, with billing and collection efficiencies showing some improvement. The RDSS, which took effect in 2021, appears to have had a positive effect on AT&C losses



Source: Company, IDBI Capital Research

- **Private DISCOMs have shown better performance**

  However, amidst this, the private players have done exceedingly well in the few (15 in nos.) number of DICSOMs they operate, covering just 10% of the populace.

  While private participation in the distribution business has been allowed since the 2000s, the pace of pick-up has been very slow. In September, 2020; GoI released draft Standard Bidding Documents (SBDs) to privatize DISCOMs. The GoI has used two modes of privatization viz. Public Private Partnership and Franchise Model.

Exhibit 26: Key features of the privatization model such as higher flexibility on PPAs and improved tariff setting arrangement have led to the privatization model gaining prevalence.

PPP/Privatization Model	Franchisee Model
A new JV is created with majority private ownership and management control. Governmental stake range from 0% to 26%.	DISCOM outsources distribution process for a defined area to a private player under a performance-based contract.
The assets are transferred to the JV. Assets (except land) to be transferred to the new entity at net asset value as approved by the respective SERCs.	The asset-ownership stays with the DISCOM, with the operational deliverables extending for 10-20 years.
The JV directly manages the PPAs, collects the fees from the consumers and bears full responsibility for cash flow and profitability, there is no cushion provided. PPAs typically form a major part of the DISCOMs costs. Autonomy on PPAs is a major attraction for private participation.	The power is purchased from the DISCOM are pre-approved supply tariff, while the franchisee collects the payments and pays a fixed fee called input rate to the DISCOM. The franchisee attempts maximising its own margins by reducing losses and improving collections. This leads to distribution of risk: regulatory risk lies with the DISCOM while the franchisee bears collection and operational risk.
In this case as well, the SERC sets the tariffs, but the JV can propose revisions.	The tariffs are still set by the SERC, the franchisee cannot set its own tariffs.
The JV is responsible for capex, network expansion, loss reduction etc.	The revenue of the franchisee is linked to billing efficiency until a benchmark, beyond which the losses start impacting profitability.
The JV does not receive any cushion for losses, and has to pay a premium to acquire the equity. In some cases, the JV may also have revenue-sharing agreements with the state government.	The franchisee limits investment to only O&M improvements.

Source IDBI Capital, Company

Furthermore, the bid parameters are contingent upon the AT&C losses of the DISCOM:

- For AT&C losses beyond 15%, the bid parameter to be an AT&C loss commitment for the next 5 years. A fixed payment to be made to the DISCOM each year.
- For the rest, an upfront price to be paid for the acquisition of equity.

The PPP model has gained preference over the franchisee model.

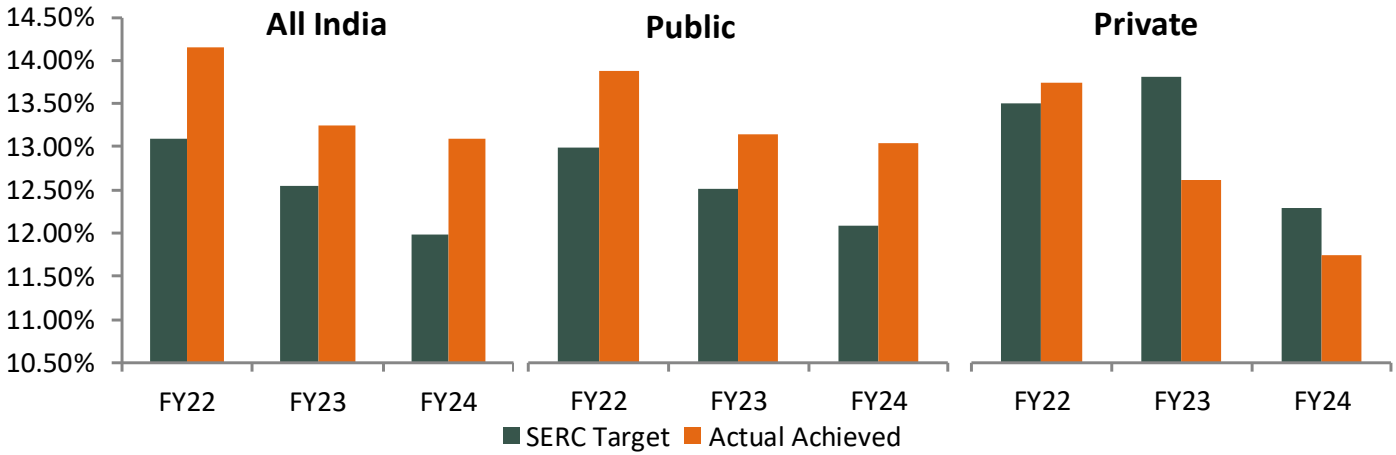
Exhibit 27: Amongst private DISCOM players, AEML performs exceedingly well on all key distribution metrics

Name	Short	State	AT&C Loss	Billing Efficiency	Collection Efficiency	ACS-ARR Gap
BSES Rajdhani Power Limited	BRPL	Delhi	6.58%	93.42%	100%	-0.16
BSES Yamuna Power Limited	BYPL	Delhi	7.84%	92.84%	99%	-0.27
Tata Power Delhi Distribution Limited	TPDDL	Delhi	5.91%	94.09%	100%	-1.19
Adani Electricity Mumbai Limited	AEML	Maharashtra	6.12%	94.13%	99.73%	-0.99
TP Central Odisha Distribution Limited	TPCODL	Odisha	21.65%	78.35%	100.00%	-0.13
TP Northern Odisha Distribution Limited	TPNODL	Odisha	14.61%	85.39%	100.00%	-0.22
TP Southern Odisha Distribution Limited	TPSODL	Odisha	26.75%	73.53%	99.61%	0.54
TP Western Odisha Distribution Limited	TPWODL	Odisha	17.90%	83.47%	98.36%	0.33
Noida Power Company Limited	NPCL	Uttar Pradesh	7.81%	92.52%	99.64%	-0.58
India Power Corporation Limited	IPCL	West Bengal	4.07%	97.32%	98.57%	-0.04
Calcutta Electric Supply Corporation Limited	CESC	West Bengal	-	-	-	-
Tata Power Mumbai	TPML	Maharashtra	-	-	-	-
Torrent Power Surat	TPSL	Gujarat	-	-	-	-
Torrent Power Ahmedabad	TPAL	Gujarat	-	-	-	-
DNH and DD Power Corporation Limited	DNHDDPDCL	Dadra Nagar UT	-	-	-	-
Nation-wide			**16.12%**	**86.91%**	**96.51%**	**0.39**
Private			**12.12%**	**88.22%**	**99.60%**	**-0.32**
Public			**16.38%**	**86.82%**	**96.32%**	**0.43**

Source: PFC DISCOM Review, IDBI Capital, '-'indicates DISCOMS which did not participate in FY24 survey.

For the private players, barring Odisha and Delhi regions, the AT&C losses have been in control, with excellent billing and collection efficiency. The ACS-ARR has turned negative, which indicates the DISCOMs are on a path to profitability. The performance of the private players on all fronts, portray them favorably and as strong contenders of the future of the Power Distribution sector.

Exhibit 28: While the state owned DISCOMS have failed to meet the Distribution loss targets set out by the SERCs, the private players have managed to keep the distribution losses under the ceilings set by the SERCs



Source: PFC, IDBI Capital Research

Diversified revenue streams such as trading in power contracts, rooftop solar installations and EV charging stations have further cushioned the DISCOM revenues. Wheeling charges are paid by Industrial users for the usage of lines and other transmission facilities, as they source power directly from the GenCo; is another emerging source of revenue.

- **AESL's entry into the Distribution business**

  AESL entered the Distribution business with the acquisition of the Mumbai DISCOM from RInfra in 2018. AEML paid a total of Rs133Bn, of which Rs85Bn was funded by debt. The deal was valued at 3x of regulated equity. AEML covers 400 sq km of area, with a consumer base of 13mn consumers, covering 85% of Mumbai's population. The license included the following:

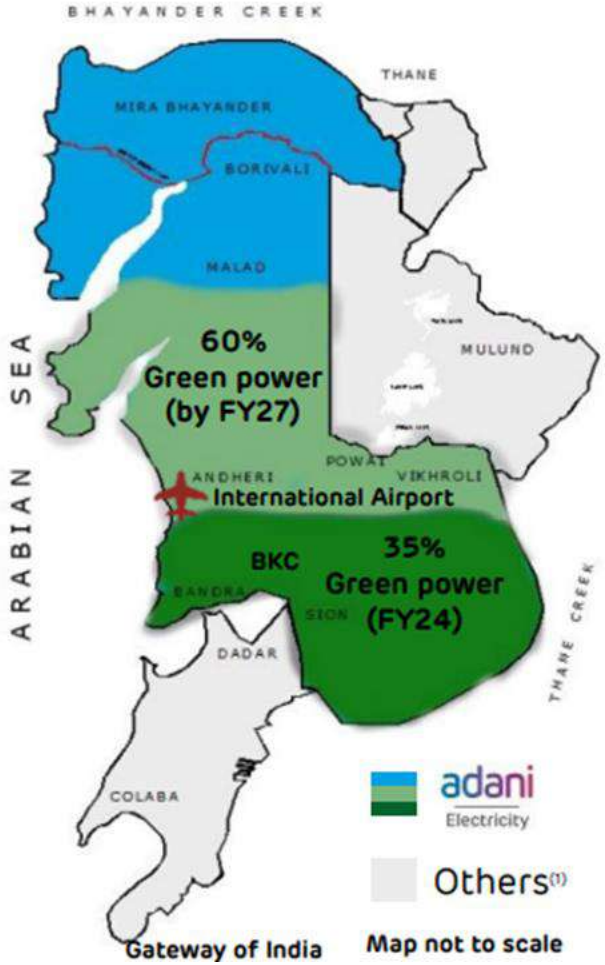
  - Distribution license for sale of electricity
  - Transmission assets of 538ckm
  - Generation power plant at Dahanu with a capacity of 500MW

  The contract life is 25 years. The Mumbai DISCOM has operated on a privatized DICSOM model since 2001.

  Additionally, in July 2024, the Dahanu power plant was carved out and sold off to North Maharashtra Power Ltd (NMPL) for Rs8.15Bn, which was eventually transferred to Adani Power Ltd (APL) in November of 2024. The plant however continues to provide electricity to AEML under long-term PPA. The current RAB of AEML stands at Rs95.5Bn.

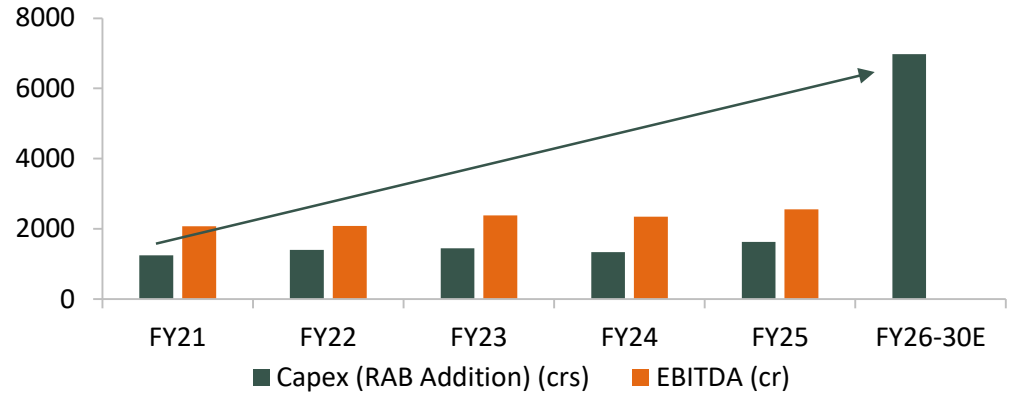
  In 2019, AEML sold 25% of the DISCOM stake to Qatar Investment Authority (QIA) for Rs32Bn to fuel its capex growth and deleverage the business.

Exhibit 29: MMR coverage of AEML



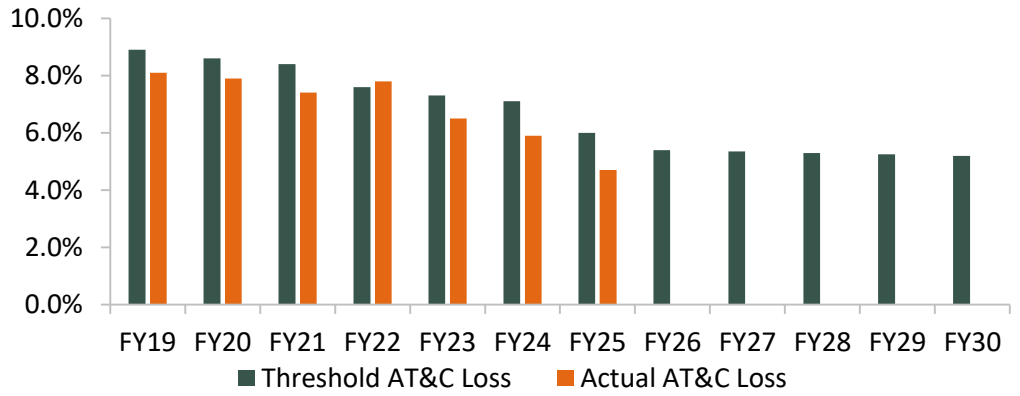
Source: Company, IDBI Capital Research

Exhibit 30: RAB Addition in AEML has taken place at 9% CAGR from FY21-25. RAB Capex is integral in the distribution business as the Regulated Equity is used to calculate the allowable revenue. Higher capex translates directly to higher EBITDA



Source: Company, IDBI Capital Research

Exhibit 31: AEML has consistently kept its AT&C losses below the approved threshold. This has resulted in consistent top performance and also additional incentive income, taking the approved ROE from 14% to 15.5%

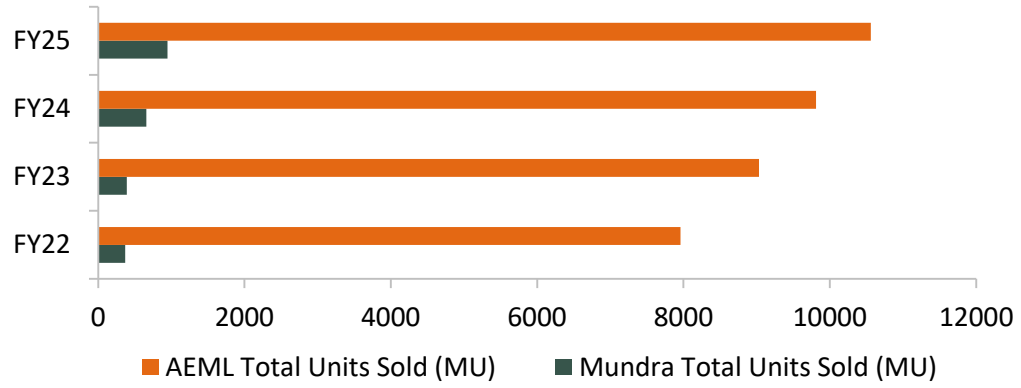


Source: Company, MERC Order, IDBI Capital Research

In 2025, AESL acquired the Mundra Distribution license through MUL. The Mundra region, well-known for its industrial activity, provides a large pool of C&I customers. The existing load at MUL stands at 113MW, which is expected to increase manifold as new investments in Copper, Petrochemicals and Solar Manufacturing and Ancillary industries take shape. MUL has a total of 253ckm of distribution network.

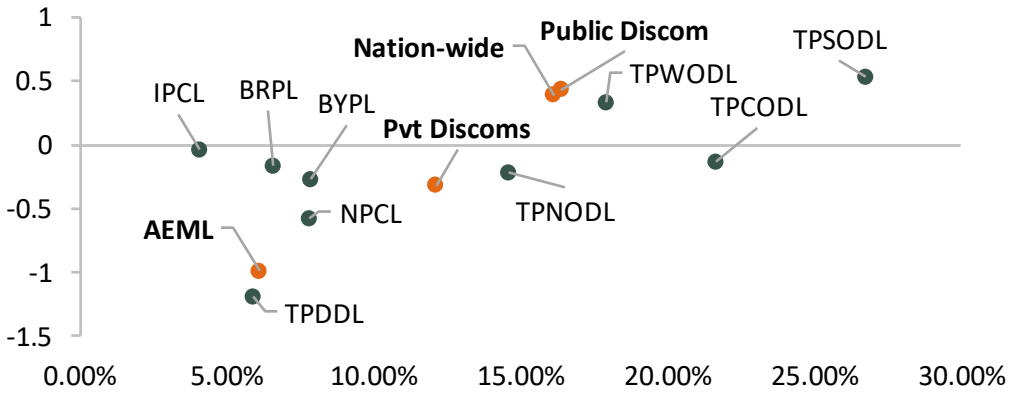
MUL operates in a region which is predominantly occupied by C&I consumers. C&I consumers tend not to rely on DISCOMs for their power needs and either sign direct PPAs with GenCos or construct their own captive power plants. The consumer profile is not expected to change meaningfully in the future. However, with new projects in new industries such as petrochemicals, copper and solar module manufacturing, the RAB is expected to increase gradually, translating into higher approved revenue.

Exhibit 32: The units sold (MU) by AEML has grown at CAGR of ~36% across FY22-25, while the CAGR for MUL has been ~10% over the same period. With the power tariff regulated by SERC, the number of units sold directly affects the revenue figure



Source: Company, IDBI Capital Research

Exhibit 33: Amongst all private peers, AEML continues to trend to the bottom left, with low AT&C losses as well as negative ACS-ARR



Source: Company, MERC Order, IDBI Capital Research

The operational performance of AEML Mumbai has been nothing short of excellent, with a consistent below AT&C loss profile. This is important as meeting AT&C loss targets (among others), leads to incentive fees which is calculated as reduction in required power purchase quantum times the power purchase rate. The licensee is allowed 1/3rd of this gain. This acts as a variable incentive fess which is provided over and above the decided ARR.

AEML has consistently ranked the top DISCOM by PFC for the last 3 years and has proven to be exceptionally good at operating the Mumbai DISCOM, with IR score of 99.8 (out of 100, followed by DGVCL at 97.5); basis the metrics below.

Exhibit 34: AEML has consistently been ranked among the top 5 DISCOMs since FY22, by a wide margin

FY21			FY22			FY23			FY24		
Name of Utility	Score	Ownership	Name of Utility	Score	Ownership	Name of Utility	Score	Ownership	Name of Utility	Score	Ownership
DGVCL	99.4	State	**AEML**	**99.6**	**Private**	**AEML**	**99.9**	**Private**	**AEML**	**99.8**	**Private**
MGVCL	98	State	UGVCL	99.1	State	DGVCL	98.3	State	DGVCL	97.5	State
UGVCL	98	State	MGVCL	97.6	State	UGVCL	97.4	State	NPCL	97.2	Private
AEML	**93.4**	**Private**	PGVCL	94	State	MGVCL	97.3	State	MGVCL	95.6	State
NPCL	92.3	Private	DGVCL	93.8	State	NPCL	95.1	Private	UGVCL	94	State
PGVCL	91	State	NPCL	93.3	Private	PGVCL	92.3	State	UHBVNL	92.8	State

Source: PFC 13th Annual Integrated DISCOM Survey, IDBI Capital, DISCOMS which did not participate in current survey have been dropped.

- **Future Outlook**
  - **Slow pace of DISCOM privatization**

    While the performance of private players in operating DISCOMs has been outstanding, the process of privatization has not picked up pace, with the last privatization taking place in 2022 of DNHDDPDCL. The process is bogged down by regulatory oversight, employee non-cooperation and lengthy legal battles. Recently, the Uttar Pradesh government has cleared the privatisation process for two of its DISCOMs viz. PVVNL and DVVNL, the RFP/RFQ yet to be floated.

    Going ahead, as more bids get floated, AESL stands a strong chance of emerging as L-1 bidder, owing to its strong financial position and consistent operational track-record.

  - **Parallel Licensing**

    With the recent Supreme Court decision, allowing a parallel distribution license for any area as deemed by the SERC, without the minimum criteria of size or consumer demography; has streamlined the laws governing the parallel licensing. However, the regulators still seem to be navigating the new legal landscape and the progress has been slow overall.

The second challenge with parallel licensing lies in the prohibitive cost of setting up the on-ground infrastructure such as wires and sub-stations, which makes entry for new players extremely difficult.

AESL plans to ink direct contracts with C&I customers as they are less price sensitive, demand bulk power and have power requirements which are different from the residential profile. AESL with its existing expertise and proven track record will have the ability to service such customers. AESL targets securing parallel licenses in C&I dense markets and then expand outwards.

Till now, the following 3 DISCOM locations have been opened up for parallel licensing.

Exhibit 35: Revenue potential from parallel licensing of DISCOMs

Location	Investment (Rs Bn)	EBITDA Potential (Rs Bn, annual basis)
Navi Mumbai	100	20
Greater Noida	50	10
Mundra Subdistrict	50	10

Source: Company, IDBI Capital

Smart Meter

The distribution sector in Indian has been plagued with high AT&C losses, going as high as 45% in certain states. Government schemes such as UDAY and RDSS; along with success of private players have managed to tone down the AT&C losses and ACS-ARR gaps. However, the targets set out to achieve sub-15% AT&C losses and negative ACS-ARR are yet to be achieved. The introduction of smart meters in the power landscape of India is key to achieving the targets set out above.

The conventional meters have 3 major drawbacks which impair profitability at the DISCOM level:

- Physical meter reading which incurs time as well as cost
- Theft of electricity and tampering with meters
- Absence of 2-way communication between the meter and DISCOM which misses out on crucial data insights.

Introduction of smart meters is expected to mitigate these. The RDSS scheme aims to reduce the AT&C losses to ~12% by FY25-26 and smart meters form the back bone for this.

Specifics of the RDSS:

The specifics of the RDSS scheme are as follows:

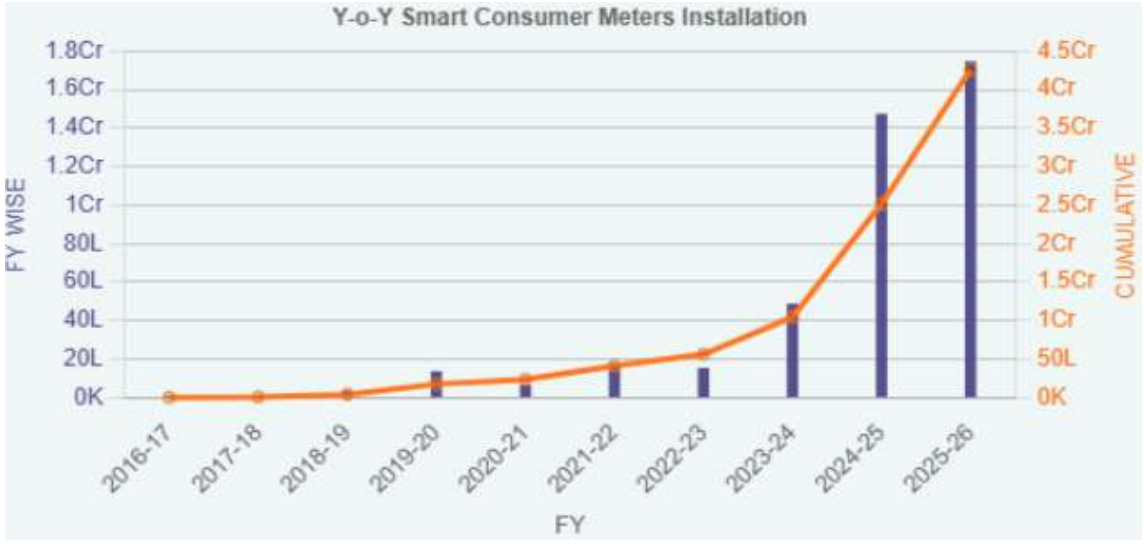
- The RDSS scheme has 2 parts to it: the first part touches upon training, capacity building and other enablement, while the second one covers financial support for prepaid smart metering, and distribution infra upgrades. The sanction outlay for smart metering is approximately Rs1.35Tn, and for loss reduction works is Rs1.19Tn. (source)
- A single agency will be contracted for supplying, maintaining and operating the metering infrastructure for the purpose of meter related data and services to the DISCOM. This is called Advanced Metering Infrastructure Service Provider (AMISP).
- The smart meter installation is to be carried out under 2 modes:
- CAPEX Model: this is mostly carried out by the utilities, wherein they bear the installation as well as the maintenance costs.

- TOTEX (Total Expenditure) Model: this mode is adhered to under the PPP model in which AMISPs are responsible for both capital (CAPEX) and monthly expenditures (OPEX) over the contract tenure (typically 10 years). In return, the AMISPs receives a monthly PMPM (per meter per month) revenue and an upfront subsidy under RDSS.
- The subsidy amounts to either 15% of meter cost or Rs900, whichever is lower. For special category states (such as the North Easter ones), the upfront subsidy is lower of 22.5% of meter cost or Rs1350. The contractual timeline for of O&M of smart meters is 93 months.
- The AMISPs are selected through competitive bidding.

Total Addressable Market

While the contract award rate has been strong, the installation has not kept pace. As of October'25, out of the 250Mn target of smart meters, contracts have been awarded for 145Mn contracts and 105mn smart meters yet to be tendered. The sanctioned meters figure stands at 225Mn, which covers about 90% of the national target. About 30% of the awarded meters have been installed, with 70% still in the waiting.

Exhibit 36: Cumulative Smart Meters Installation



Source: nsgm.gov.in, IDBI Capital

Financial Metrics and Operational Structure

The bid parameter is the monthly fee, quoted on a per meter per month basis. Once the bid is awarded, the AMISP gets 27 months for the design, planning, and installation of the meters. The billing starts as soon as the meter is installed for a total period of 93 months. The entire installation has to be completed in 27 months. Typically, there is a lag of 1-2 months between installation and billing, which is charged by the utility from the consumer each month and then passed on to the AMISP. Financial security is reinforced by a quadripartite agreement (Discom, AMISP, REC, and Agent Bank), allowing revenue to be automatically transferred to the AMISP via a direct debit facility from consumer bills.

Additionally, the AMISP also receives a subsidy grant equivalent to 15% of the smart meter cost.

In our estimation, there are 3 metrics which need to be monitored:

- Bid rate of smart meters on PMPM basis
- Cost of smart meter
- O&M expenses over the contract lifecycle

- **Leveraging into Smart Metering**

  Given its strong presence in the power distribution segment, AESL further expanded into the smart metering business in FY22. By H1FY26, AESL had won a total of 10 contracts, across a range of states in India, totalling 24.6Mn smart meters which represents a total order book of Rs295Bn. It has slowly built up a market share of 17% basis the number of meters awarded (the share has fallen from 22% to 17% now, but still continues to be very strong).

  Of these meters awarded, AESL has installed 7.4Mn meters, which is ~17% of the total meters installed in India. Going ahead, AESL targets reaching 10Mn by FY26 and 14.5Mn meters i.e. finish the entire order book by FY27. AESL has installed 7.4 mn meters at a rate of 20,000 meters per day and is further looking to ramp-up the installation rate to 30,000 meters per day. Out of the total target of 250Mn smart meters to be installed, 224.2Mn smart meters have been sanctioned (Source: link), with 145Mn meters awarded. If we assume AESL captures a market share of 20%-25% of the entire smart meter planned outlay, the new smart meter additions could total ~50Mn more meters, which translates to an order book of ~Rs600Bn – Rs660Bn.

Exhibit 37: Details of Smart Meter Projects Awarded

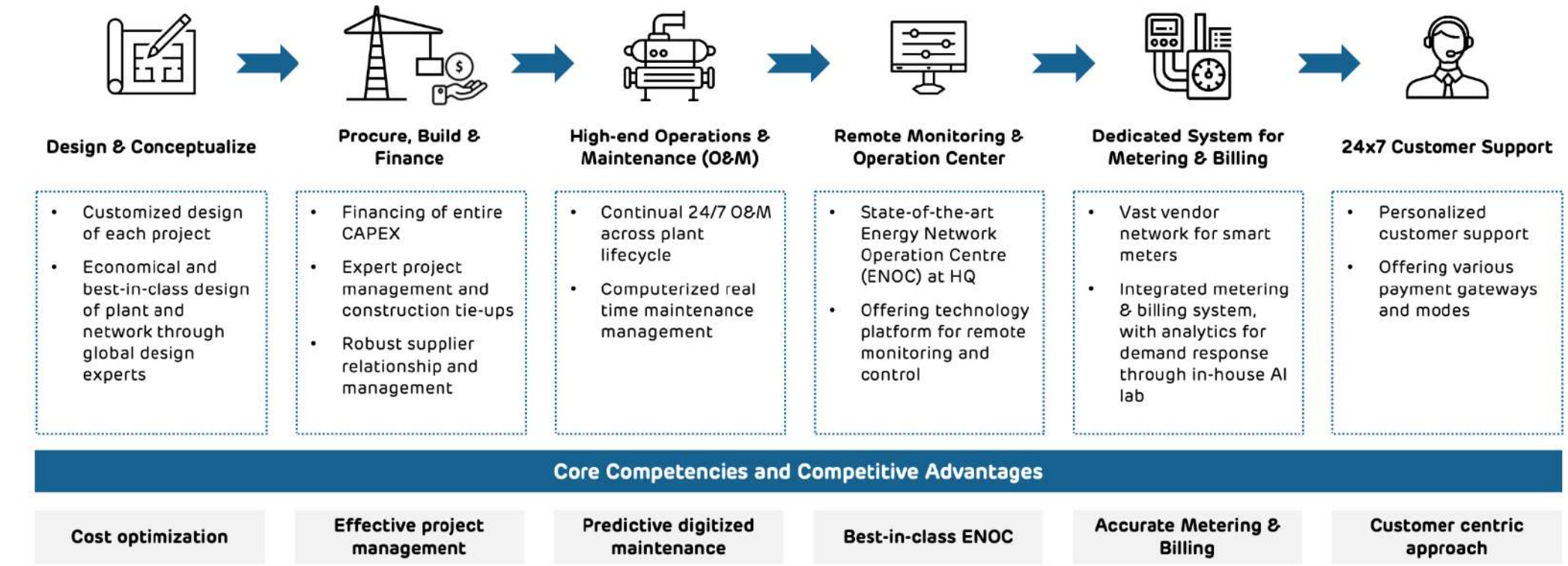
Project Details	No of meters (mn)	Contract Value (bn)	Value/SM
BEST Smart Metering (BEST Maharashtra)	1.1	13	11,818
NE Smart Metering (APDCL- Assam)	0.8	8.4	10,500
Adani Transmission Step Seven (APEPDCL - Andhra Pradesh)	1.1	12.9	11,727
Adani Transmission Step-Seven Ltd. (APCPDCL - Andhra Pradesh)	1.7	20.8	12,235
Adani Transmission Step-Seven Ltd. (APSPDCL - Andhra Pradesh)	1.3	18	13,846
Adani Transmission Step-Six Ltd. (MSEDCL NSC-05 - Maharashtra)	8.1	96.7	11,938
Adani Transmission Step-Six Ltd. (MSEDCL NSC-06 - Maharashtra)	5.2	62.9	12,096
Adani Energy Solutions Limited (NBPDCL - Bihar)	2.8	31	11,071
Adani Transmission Step-Eight Ltd. (UPCL - Uttarakhand)	0.7	8.1	11,571
Adani Electricity Mumbai Limited (AEML – Mumbai AEML Circle)	1.8	23	12,777
Average	24.6	294	11,984

Source: Company, IDBI Capital

Cooling as a Service (Caas)

Globally, the district cooling market is gaining momentum as countries transition towards low-carbon urban infrastructure. Developed economies have achieved 20-30% DC penetration, supported by stringent emission norms, urban population and government incentives. In contrast, India's district cooling penetration remains below 1%.

Exhibit 38: Advantages of CaaS



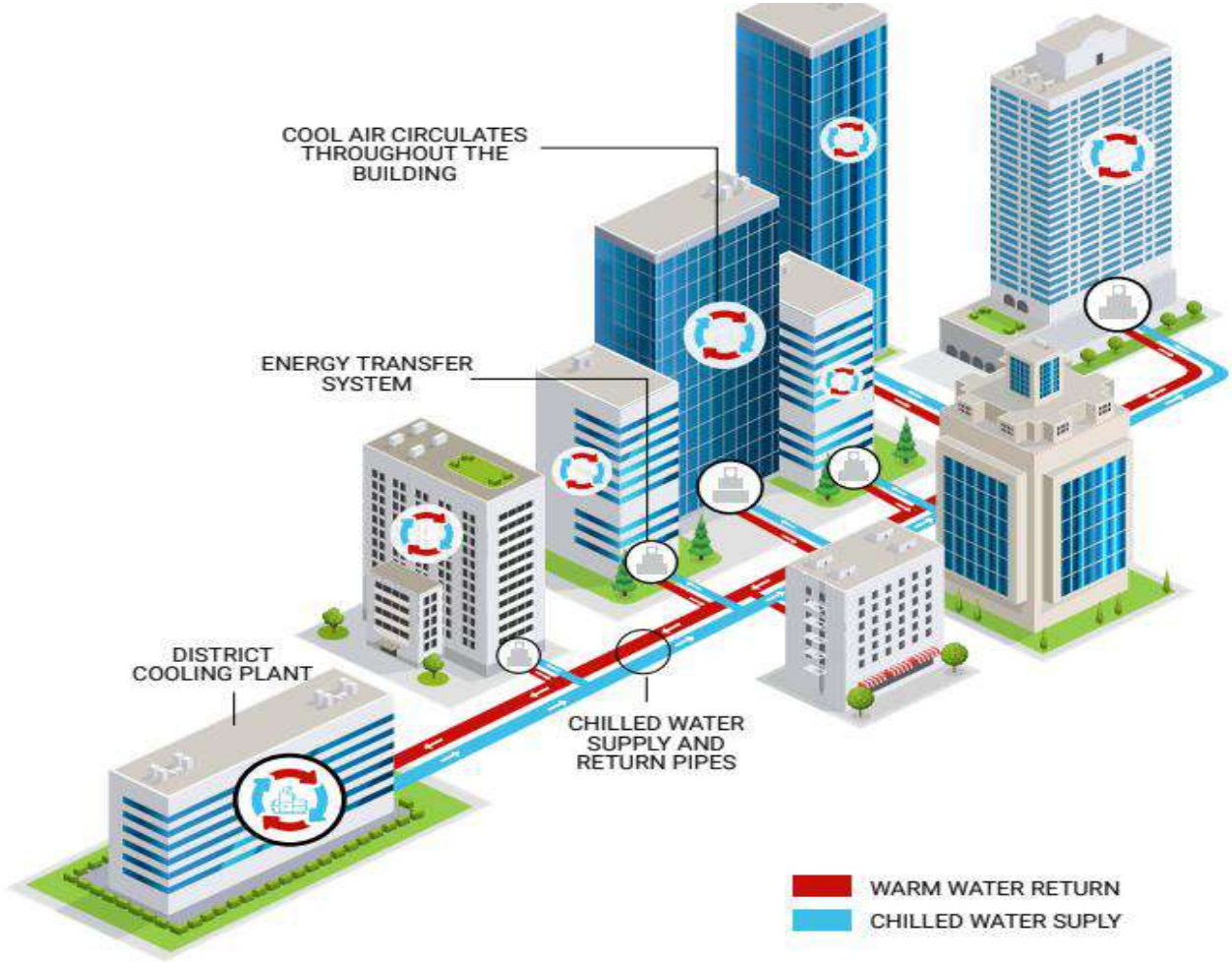
Source: Company, IDBI Capital Research

As the Government of India pushes for sustainable urban infrastructure development, the cooling solution sector is witnessing strong expansion. India's energy demand for cooling is projected to rise 8x this decade, resulting in a 4x increase in power demand and a potential 30% rise in carbon emissions. AESL through Adani Cooling Solutions ltd, has positioned itself as a first mover in catering large-scale, centralised cooling infrastructure across India.

AESL operates district cooling system through a Cooling-as-a-Service (CaaS) model that brings down the capital intensity by providing pay-per-use structure. The company's centralised system produce chilled water at district plants and distribute it via underground piping networks to multiple buildings, offering up to 50% electricity and 30% water savings compared to traditional cooling systems.

To support this scale up, district cooling system (DCS) must grow from 9 million TR in 2023 to approx. 32 million TR by FY30. DCS represents a modern and energy-efficient approach to large scale air conditioning in urban and campus environments. These systems use a network of subterranean insulated pipes to deliver cooling capacity in the form of chilled water from a centralised plant to multiple customers. This works to replace individual AC units, DCS enables significant energy optimisation and cost efficiencies.

Exhibit 39: Working of a District Cooling Plant



Source: DCG 2023, IDBI Capital Research

The segment has evolved significantly from a single project entity in FY24 situated at Shantigram Township in Ahmedabad with a capacity of 7,000TR to a market leading player with 52,000 TR capacity under construction, including the district cooling plant at Mundra with a capacity of 45,000 TR and a pipeline of 2,50,000 TR across multiple regions.

AESL primarily targets commercial real estate, industrial cooling, airports and data centres where the demand for sustainable cooling is the highest. The company's presence in power and distribution gives it a competitive edge with reliable electricity and water inputs enabling cost efficiencies.

India's centralised cooling market remains at a nascent stage, dominated by international players. However, with India's per capital cooling energy consumption (147 kWh in 2023) significantly below global average (1,539) kWh) and only 8% AC ownership, the long term headroom remains potent. AESL aims to become market leader in DCS market by capturing 40% of the addressable market in India. According to India Cooling Action Plan (ICAP 2019) and the District Cooling Guidelines 2023, India's installed space capacity is expected to grow from 130 million TR in FY23 to 720 million TR by FY38.

Commercial and Industrial Opportunity (C&I)

AESL has recently ventured into the C&I energy solutions business, marking a significant strategic expansion beyond its traditional operations. The segment focuses on providing comprehensive, end-to-end energy solutions to large industrial and commercial customers. AESL commenced the C&I business in Q1FY26, with the quarter marking the first period of meaningful revenue contribution of Rs 180Mn from this new segment. Currently, the company caters to 14 large customers with an aggregated contracted load of approximately 717 MW, with individual customer requirements ranging from 5 MW to 150 MW.

The business model is designed around a value-added, customized energy aggregation approach rather than conventional energy trading. AESL contracts and aggregates different power capacities to deliver tailored energy solutions, assuming full responsibility for reliability, cost optimization, and sustainability alignment. Drawing parallels to a DISCOM-like structure, AESL manages all operational and regulatory complexities, such as open access and banking rules, acting as a one-stop energy partner for clients. This model not only supports ESG objectives but also ensures competitive cost advantages, a strategy first proven successful within AESL's own cement business before being extended to external clients.

Looking ahead, AESL envisions rapid growth in this segment, targeting around 7,000 MW of contracted load within five years. The scalability of the C&I business will be closely tied to the deployment of energy storage systems, which will enable Round-The-Clock supply and a higher proportion of green energy at lower costs compared to existing distribution tariffs. Contract tenures vary between 13 months and 10 years, with flexible pricing mechanisms, either fixed upfront or indexed to distribution tariffs depending on customer needs. Under the new ISTS transmission charge regime, transmission costs are standardized nationwide, further simplifying the pricing framework.

In essence, AESL's C&I business operates as a specialized energy architect, integrating generation, storage, and regulatory expertise to deliver personalized, sustainable, and cost-efficient power solutions for large industrial and commercial consumers.

Strong Capital Hygiene and Well Diversified Debt Financing

AESL adopts a well-structured and diversified financing framework to strengthen its long term growth across transmission and distribution assets, majorly backed by debt. The financing structure compromises of multiple tranches of secured bonds and Private Placement (PP) facilities packaged with both amortizing and bullet repayment structures.

- **US Private Placement (USPP) for 6 Transmission Assets:** AESL has secured the project finance facility of USD400 million for 6 transmission companies of USPP group. The pool of USPP assets comprises of 7 operating companies (STL, CWRTL, RRWTL, HPTSL, BPSTL, TPTSL and ATRL) under the group identity. The facility carries a 5.20% coupon, TSAs and a pledge of 100% shareholding. The instrument is structured with a semi-annual repayment schedule with first repayment in the month of Sep-2020 over the period of its tenor ending March-2050. The effective post-hedging cost stands at approximately 9.5%.
- **USD Bonds for Regulated Transmission Assets:** AESL has secured two USD bond facilities to finance 4 RAB assets, USD500 million 4.00% coupon rate bullet bond maturing in FY26, and USD362.5 million 4.25% amortizing bond redeemable through semi-annual instalments up to May-2036. Both instruments are structured by land mortgages in Sanand, hypothecation over all assets of Adani Transmission Step-One limited, pledges of 100% equity in ATIL and MEGPTCL, and a corporate guarantee from AESL. The effective cost, post currency hedging stands in range of 9.00%-9.50%.
- **Mumbai Distribution Financing;** To finance the Mumbai distribution and service operations, AESL has issued USD1 billion bond with coupon rate of 3.949% maturing 2030 and another USD300 million sustainability linked bond with coupon rate of 3.867% maturing 2031.The bonds are secured through first-ranking assignments of transmission and distribution licenses and pledges of 100% equity shares of AEML and PDSL. The effective cost, post hedging cost remains close to 9%.
- **Capex Revolving Facility:** AESL has raised USD700 million revolving capex facility to fund the capex of 4 transmission projects. The projects located in Gujarat are part of India's Green Energy corridor (GEC), facilitating evacuation and transmission of renewable energy. Projects in Maharashtra will be a part of transmission system upgradation and strengthening.

- **Qualified Institutional Placement (QIP):** AESL successfully raised Rs 8,373cr (USD 1billion) via QIP. The issue was launched in July 2024, with a base size of Rs 5,861cr with a green shoe option raising the total issue to USD1 billion. The proceeds from this issue were utilized in building transmissions assets, smart metering business and debt repayment.

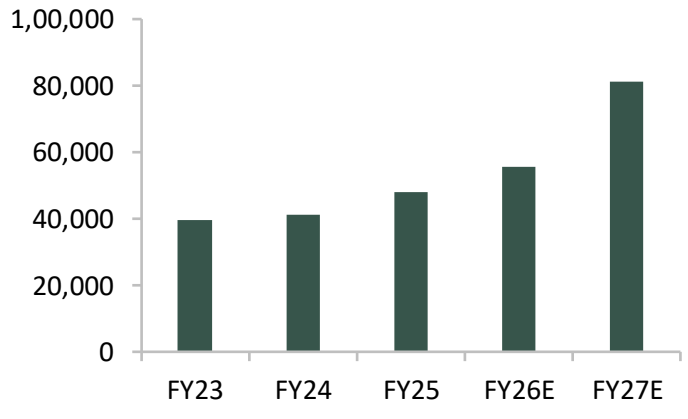
Financial Analysis

AESL is well positioned for robust revenue and earnings growth over FY25-27E, fueled by its transmission, distribution and smart metering segments.

- **Transmission Segment**

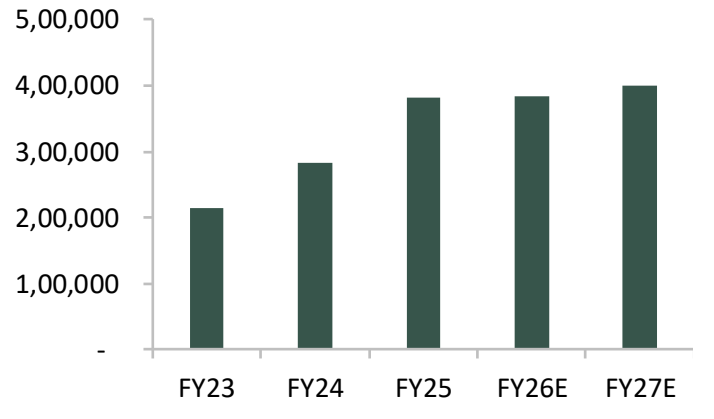
  The company has 13 transmission projects under construction with an asset base of Rs 600 billion, expected to be completed over the next three years. This bolsters a projected transmission revenue CAGR of 20% to Rs81.1bn by FY27E, with EBITDA expected to grow at 23% CAGR to Rs74.6bn, driven by timely execution of the transmission segment order-book. We expect the transmission segment Gross Block to reach Rs400bn by FY27E, further AESL targets a 15-20% long-term market share, backed by strong bid activity and sectoral tailwind.

Exhibit 40: Transmission Revenue to grow at a CAGR of 20% between FY23-FY27E



Source: Company, IDBI Capital Research

Exhibit 41: Transmission Gross Block growth

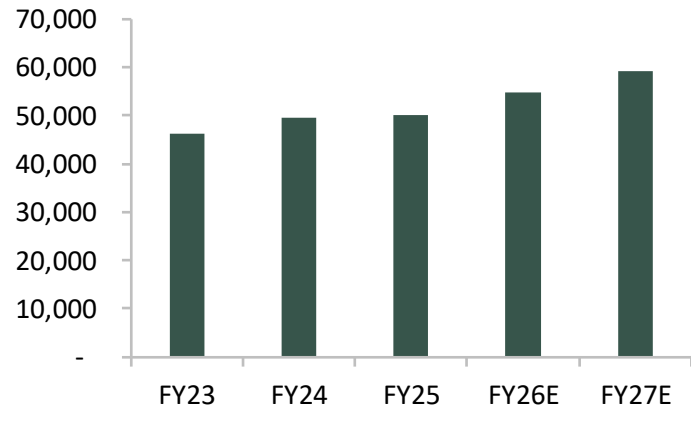


Source: Company, IDBI Capital Research

- **Distribution Segment**

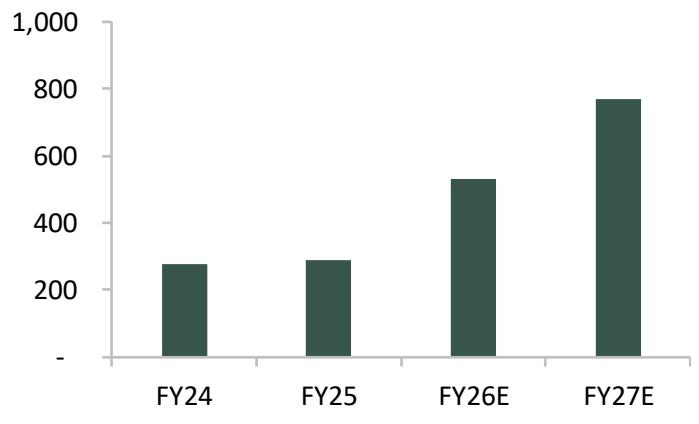
In distribution, AESL is expected to showcase stable growth with revenue CAGR of 1% over FY24-27E, backed by annual capex of Rs 14-16 billion to expand regulated equity and the elevated cost absorption ability of the Mumbai consumers. In Mumbai, regulated equity is modelled to expand from Rs 50 billion in FY25 to Rs 59 billion by FY27E, while Mundra's regulated equity is projected to grow from Rs 290 million to Rs 770 million by FY27E, underpinned by strong industrial power demand in the SEZ. EBITDA is projected to grow at a 12% CAGR over FY24-27E to Rs 31bn by FY27E and EBTIDA margins to expand by 809bps from 21.7% to 29.7% byFY28E.

Exhibit 42: Mumbai regulated Equity to grow at a CAGR of 6% between FY23-FY27E



Source: Company, IDBI Capital Research

Exhibit 43: Mundra regulated EBITDA to grow at a CAGR of 41% between FY23-FY27E



Source: Company, IDBI Capital Research

- **Smart Metering Segment**

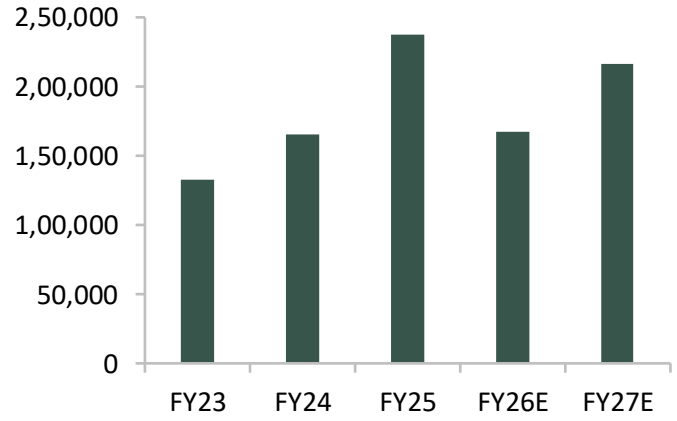
The smart meter business is expected to expand swiftly from a low base, with 24.6mn meters under implementation. In the scenario, wherein AESL bags 20-25% of the total outlined smart meters: full deployment of 24.5 million smart meters by FY27E, resulting in revenue growth from Rs13 billion in FY26E to over Rs28 billion by FY27E. We have forecasted the segmental EBITDA to reach Rs 23 billion in FY27E. We are projecting smart meter segment as the key catalyst for consolidated EBITDA margin expansion due to the high margin (85% EBTIDA Margins) and low cost, structurally supported by AMISP orders.

Final Verdict

AESL's consolidated revenue is expected to grow at 13% CAGR over FY23-27E to Rs 216 billion by FY27E. EBITDA is modelled in to grow at 33% CAGR over FY23E-27E, driven by operational efficiencies in transmission, strong cashflows from distribution and margin accretive smart meters. The AESL's execution of UC projects, delivering high growth in smart meters and expanding regulated equity provides a strong visibility for sustained earning growth.

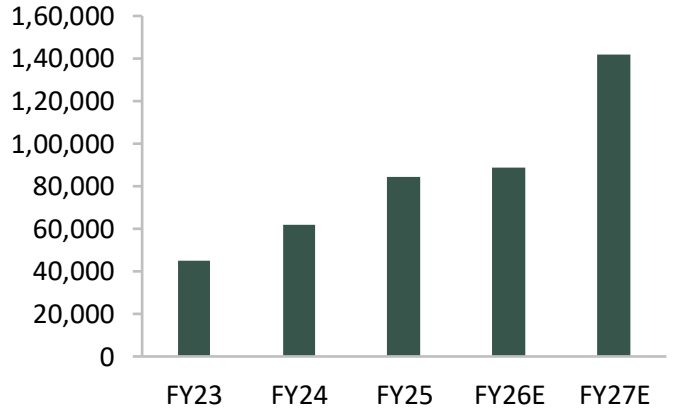
We value AESL on a SoTP basis, applying differentiated multiples across its diverse business verticals. We assign a 3.5x multiple to the equity value of regulated Distribution and RoA transmission assets, reflecting the stable cash-flow profile, good growth expectation in the Mumbai DISCOM and, ability of customer to absorb price escalations. The high growth TBCB Transmission segment are valued at 14x EBITDA to capture the superior return trajectory and execution visibility. The Smart Metering segment, with substantial scalability potential, is valued at 14x EBITDA. Additionally, we embed a strategic optionality premium of Rs239/share to capture the latent value from the AESL's new project wins expected in smart meter segment. **This yields an implied fair value of Rs1,195 per share, translating into a BUY rating on the stock.**

Exhibit 44: Revenue to grow at a CAGR of 13% between FY23-FY27E



Source: Company, IDBI Capital Research

Exhibit 45: EBITDA to grow at a CAGR of 33% between FY23-FY27E



Source: Company, IDBI Capital Research

Valuation Snapshot

Valuation	Valuation Metric	Multiple	FY27E	Value
Book Value				**BV**
Distribution Asset Equity Value	P/BV	**3.5**	60,030	2,10,105
Transmission RoA Equity Value	P/BV	**3.5**	57,788	2,02,256
Enterprise Value				**EV**
Transmission TBCB - EBITDA	EV/EBITDA	**14**	50,902	7,12,626
Smart Meter - EBITDA	EV/EBITDA	**14**	25,767	3,60,740
Debt				
Transmission TBCB			2,96,261	
Smart Meter			70,481	
Total Debt				3,66,742
Cash and Cash Equivalents				30,316
Net Debt				**3,36,425**
Option Value				**EV**
Smart Meter- EBITDA		**9.5**	44,801	4,25,612
Smart Meter- Debt				1,38,884
Equity Value				2,86,728
Equity Value				**14,36,030**
No Of Shares O/S				**1,201**
Value Per Share				**1,195**
CMP				**1022**
Potential Upside				**17.0%**

Key Risks

- **Project Execution and Operational Challenges**
  - **Execution delays and cost overruns:** The company faces risk related to delayed execution of projects owing to regulatory clearances such as ROW. Projects under construction including both transmission and smart meter projects are vulnerable to input cost escalation.
  - **Implementation Risk in Transmission:** Delays in charging of line or acquisition of RoW asset, while the interest costs continue, could lead to cash flow mismatches. Another risk lies in bidding of projects, wherein AESL is unable to bid for new projects at competitive rates.
  - **Risks in the Distribution Sector:** Pace and process of DISCOM privatization has been slow in the past years, with the last DISCOM getting privatized in 2021. While new tenders for privatization have been floated, they face political and legal risks.
  - **Implementation risk in Smart Meters:** As the RDSS scheme was announced recently, we have a limited track record of implementation and operation of smart meters. AESL may face site non-availability or other compliance related hurdles.
- **Financial debt and Forex Exposure**
  - **Refinancing risk:** A major refinancing requirement for USD 500 million bond issuance will be due in FY27 exposing the refinancing risk as company may not be able to issue new bond at previous coupon rate, increasing the downside risks.
  - **Capital Intensive Growth:** Expansion plans across transmission, distribution, smart metering and CaaS have a majority debt capital structure. Inability to raise capital could delay capital expenditure and subsequently revenue and profitability assumptions may get negatively impacted.

- **Counterparty and Collection Risk**
  - **Credit Profile of State Utilities:** AESL is exposed to the counterparty risk from the state utilities involved in transmission projects. The credit profiles of these STU often remain moderate to weak due to inadequate tariffs and delays in issuing tariff orders.
  - **Payment Reliability in Smart Meters:** The transmission business has a long historical track record of payment received, however the counter party risk in the smart meter business is yet to be proven reliable owing to the poor payment history of DISCOMs in India. Any delay in PMPM payment will directly have a negative impact on the project IRRs.

Key Management Profile

Name	Designation	Remarks
Mr. Gautam Adani	Chairman	Mr. Gautam S. Adani, Chairman and Founder of the Adani Group, has served as the Company's Promoter Director since June 17, 2015. Under his visionary leadership, the Adani Group has evolved into a globally integrated infrastructure conglomerate with diversified interests across the Resources, Logistics, and Energy sectors. He was appointed as an Additional Director on June 17, 2015.
Mr. Rajesh Adani	Promoter Director	Mr. Rajesh S. Adani has been the Company's Promoter Director since June 17, 2015. He oversees the Group's operations and has played a key role in strengthening and expanding its business relationships.
Mr. Anil Sardana	Managing Director	Mr. Anil Sardana has been the Managing Director of Adani Energy Solutions Limited since May 1, 2018, and assumed additional responsibility for Adani Power in July 2020. He previously served as CEO & Managing Director of Tata Power for seven years and has held key roles at NTPC and BSES. A former Chairman of CII's National Committee on Power (2012–2018), he now serves as National Co-Chair of CII's Infra Council. Mr. Sardana holds a B.E. from Delhi College of Engineering, a Postgraduate degree in Cost Accountancy (ICWAI), a PG Diploma in Management, and has completed the Top Management Program at IIM Ahmedabad.
Mr. Kandarp Patel	CEO	Mr. Kandarp Patel, Chief Executive Officer of the Company, has over two decades of experience across power trading, fuel management, legal, regulatory, and commercial functions. He began his career with Gujarat Electricity Board and joined Adani Enterprises in 2004, where he established its power trading business and later led business development for Adani Power. He holds a Bachelor's degree in Electrical Engineering from Birla Vishvakarma Mahavidyalaya and an MBA in Finance from G.H. Patel PG Institute of Business Management.
Mr. Kunjal Mehta	CFO	Mr. Kunjal Mehta is a qualified Chartered Accountant and Cost Accountant with over 24 years of experience across sectors including power, steel, ports and logistics, and technology. He has previously worked with Adani Electricity, Adani Ports & SEZ, and Essar Steel.

Financial Summary

Profit & Loss Account

(Rs Mn)

Year end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net sales*	**1,12,575**	**1,32,927**	**1,66,074**	**2,37,671**	**2,42,174**	**5,32,352**
Change (yoy, %)	*13.4*	*18.1*	*24.9*	*43.1*	*1.9*	*119.8*
Operating expenses*	(70,514)	(87,751)	(1,04,362)	(1,53,598)	(1,53,609)	(3,90,398)
EBITDA	**42,062**	**45,176**	**61,712**	**84,073**	**88,565**	**1,41,954**
Change (yoy, %)	*6.5*	*7.4*	*36.6*	*36.2*	*5.3*	*60.3*
Margin (%)	*37.4*	*34.0*	*37.2*	*35.4*	*36.6*	*26.7*
Depreciation	(14,272)	(16,077)	(17,761)	(19,060)	(31,437)	(47,181)
EBIT	**27,790**	**29,099**	**43,951**	**65,013**	**57,127**	**94,773**
Interest paid	(23,650)	(27,815)	(27,665)	(32,592)	(39,308)	(54,775)
Other income	12,864	15,833	1,509	(6,613)	6,795	6,795
Pretax profit	**17,005**	**17,117**	**17,796**	**10,749**	**24,614**	**46,792**
Tax	(4,361)	(4,353)	(5,801)	(1,790)	(6,203)	(11,792)
Effective tax rate (%)	25.6	25.4	32.6	16.7	25.2	25.2
Minority Interest	-	-	(583.3)	1,382.8	-	-
Net profit	**12,358**	**12,806**	**11,373**	**10,600**	**18,411**	**35,000**
Exceptional items	-	-	-	(15,060)	-	-
Adjusted net profit	**12,358**	**12,806**	**11,373**	**25,660**	**18,411**	**35,000**
Change (yoy, %)	*(4.2)*	*3.6*	*(11.2)*	*125.6*	*(28.2)*	*90.1*
EPS	*11*	*11*	*10*	*21*	*15*	*29*
Dividend per share	-	-	-	-	-	-
Dividend Payout (%)	-	-	-	-	-	-

**-Includes SCA accounting*

Balance Sheet

(Rs Mn)

Yearend: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Shareholders' funds	**99,128**	**1,17,492**	**1,26,416**	**2,20,682**	**2,39,093**	**2,74,094**
Share capital	10,998	11,155	11,155	12,013	12,013	12,013
Reserves & surplus	88,130	1,06,337	1,15,261	2,08,669	2,27,080	2,62,081
Total Debt	**2,98,146**	**3,41,988**	**3,70,089**	**4,02,061**	**4,62,447**	**6,44,417**
Other liabilities	21,192	18,476	23,026	29,575	29,575	29,575
Curr Liab & prov	**45,239**	**50,095**	**55,642**	**77,852**	**65,281**	**85,780**
Current liabilities	45,239	50,095	55,642	77,852	65,281	85,780
Provisions	-	-	-	-	-	-
Total liabilities	**3,64,576**	**4,10,560**	**4,48,757**	**5,09,488**	**5,57,304**	**7,59,772**
Total equity & liabilities	**4,74,641**	**5,39,318**	**5,85,788**	**7,39,601**	**8,05,827**	**10,43,296**
Net fixed assets	2,79,050	3,02,953	3,64,367	3,70,491	4,13,332	3,90,729
Investments	2,642	3,129	3,238	3,487	3,487	3,487
Other non-current assets	1,49,412	1,63,806	1,37,715	2,29,758	2,51,452	5,37,888
Current assets	**43,537**	**69,430**	**80,468**	**1,35,865**	**1,37,557**	**1,11,192**
Inventories	2,501	1,519	2,553	6,252	9,198	11,851
Sundry Debtors	10,708	14,376	15,650	42,179	13,797	17,777
Cash & Liquid	13,929	17,041	22,281	36,187	63,315	30,316
Loans and advances	16,399	36,494	39,984	51,247	51,247	51,247
Total assets	**4,74,641**	**5,39,318**	**5,85,788**	**7,39,601**	**8,05,827**	**10,43,296**

Cash Flow Statement

(Rs Mn)

Yearend: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Pretax profit	17,005	17,117	17,796	10,749	24,614	46,792
Depreciation	14,272	16,077	17,761	19,060	31,437	47,181
Tax paid	(2,669)	(2,456)	(3,001)	(2,287)	(6,203)	(11,792)
Chg in working capital	(195)	(8,443)	(2,148)	4,080	10,709	14,121
Other operating activities	12,553	15,474	29,969	55,352	32,513	47,981
Cash flow from operations (a)	**40,966**	**37,770**	**60,376**	**86,952**	**93,071**	**1,44,283**
Capital expenditure	(41,909)	(47,022)	(54,295)	(93,781)	(18,650)	(33,156)
Chg in investments	(1,222)	(7,747)	6,668	(17,447)	-	-
Other investing activities	3,163	10,573	3,142	(36,157)	(68,371)	(2,71,321)
Cash flow from investing (b)	**(39,480)**	**(46,987)**	**(49,430)**	**(1,52,276)**	**(87,021)**	**(3,04,476)**
Equity raised/(repaid)	-	38,500	-	83,731	-	-
Debt raised/(repaid)	21,357	(7,479)	26,794	25,134	60,386	1,81,970
Dividend (incl. tax)	-	-	(858)	-	-	-
Chg in minorities	-	-	-	-	-	-
Other financing activities	(23,706)	(21,789)	(31,369)	(29,113)	(39,308)	(54,775)
Cash flow from financing (c)	**(2,349)**	**9,232**	**(5,432)**	**79,752**	**21,078**	**1,27,195**
Net chg in cash (a+b+c)	**(863)**	**15**	**5,514**	**14,429**	**27,128**	**(32,998)**

Financial Ratios

Yearend: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	90	105	113	184	199	228
Adj EPS (Rs)	*5*	*2*	*10*	*20*	*15*	*29*
Adj EPS growth (%)	*-21.7*	*-56.3*	*364.2*	*96.0*	*-23.3*	*90.1*
EBITDA margin (%)	*37.4*	*34.0*	*37.2*	*35.4*	*36.6*	*26.7*
Pretax margin (%)	*15.1*	*12.9*	*10.7*	*4.5*	*10.2*	*8.8*
Net Debt/Equity (x)	*2.9*	*2.8*	*2.8*	*1.7*	*1.7*	*2.2*
ROCE (%)	*6.8*	*6.3*	*8.6*	*10.9*	*8.1*	*11.2*
ROE (%)	*5.9*	*2.3*	*9.3*	*13.8*	*8.0*	*13.6*
DuPont Analysis						
Asset turnover (x)	0.2	0.3	0.3	0.4	0.3	0.6
Leverage factor (x)	4.8	4.7	4.6	3.8	3.4	3.6
Net margin (%)	*4.9*	*1.8*	*6.8*	*10.1*	*7.6*	*6.6*
Working Capital & Liquidity ratio						
Inventory days	8	4	6	10	14	8
Receivable days	35	39	34	65	21	12
Payable days	83	75	60	70	40	35

Valuations

Yearend: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	203	464	100	51	67	35
Price/Book value (x)	11	10	9	6	5	4
EV/Net sales (x)	12	11	9	7	7	3
EV/EBITDA (x)	33	32	24	19	18	13
Dividend Yield (%)	*0*	*0*	*0*	*0*	*0*	*0*

Source: Company; IDBI Capital Research

Khubaib Abdullah

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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