"Tata Power Limited Q1-FY13 Results Conference Call"

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MODERATORS **MR. ANIL SARDANA – MD, TATA POWER.**
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Moderator Ladies and gentlemen, good day and welcome to the Q1-FY13 Analyst Conference Call of Tata Power. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I have with us today Mr. Anil Sardana – Managing Director and Mr. S. Ramakrishnan – Executive Director, Finance. I would now like to hand the conference over to Mr. Anil Sardana thank you and over to you sir.

Anil Sardana Very good evening to all the friends from the various analysts from various organizations. Let me start with some of the introductory remarks. We have declared our Q1 results for FY 13 and I am sure you are in possession of all the details. We are very happy with the operating performance, on the stand-alone basis, the company has done well. our revenues on both stand-alone as well as consolidated have looked up. Let me before that talk about a little bit of the physical parameters based on the commissioning of unit 2 of Mundra, our capacity as commissioned has moved up to about 6100 MW. that reaffirms our position as the largest integrated power company in India. The other interesting fact that established recently was a fact that we synchronized the unit 2 and declared the COD of the Mundra unit 800 MW within a short span of time which shows that the work that had gone behind the project. It has enabled us to bring the unit to stability in such a short period of time. This in itself would be a record of sorts.

The unit 2 of Maithon also was declared commercial in the month of July. In terms of the growth the company signed a long-term off take with two mines belonging to the Baramulti Group. These mines have large resources and are part of the Indonesian company called BSSR. You would have also read from the media about the Standard and Poors rating which affirmed its BB- to the long-term corporate credit and also BB- on the company's senior unsecured notes. The aspect which really influenced some of these was the aspect related to our various covenants and to the senior lenders we had sought waivers and in next few weeks we should be able to come back and provide some more positive news on that aspect and I am going to leave it there for us to discuss that later. In terms of projects Mundra project progressed. we have the other three units for which the progress is going not just as per schedule but ahead of it, and we will provide you with more and more information in terms of the date of synchronization of those units, because as we talk unit three steam blow out is in progress which shows that it is advance stages, and similarly unit 4 and unit 5 for the benefit of analysts have all gone through the boiler light up, which basically gives an indication that the project is well contained, and the project has complete predictability because when you light up a boiler means not just that it is mechanical completion is over, but also in terms of its predictable performance, we are sure of which dates you can have the next milestones inside. So that is the good news about Mundra which their all five units have progressed quite well.

Maithon is with both the units commercial, both the units are operating as we talk this afternoon the units are now getting stable and coal which is right now transported to the site has started to become more stable, while we have no issues with regard to coal availability we have issues with regard to coal transportation. We had expressed to our analyst friends that the entire project related to the railway link to the project site is taking time, but we are happy that even there there has been a good progress, and therefore the railway interconnection to the site is getting underway. The impediments which were there have been sorted out, and we could get coal now in excess of 10,000 tons per day to the site which means the units can now operate. We got as we had mentioned last time the first consignments of imported coal, for doing the pilot in terms of topping up should the need arise and similarly the consignment, of coal middlings from Tata Steel have been received and therefore all possible options of coal with better quality, with better line of site have been now proved and the proof of concept has therefore been demonstrated. So hereinafter the railway connection is the point that will be monitored closely and we will keep reporting that on quarter basis for progress.

The other projects like the Dagachhu Hydro is moving on schedule, we have for geological reasons taken more time to do the tunneling, but as we talk 7 km of tunneling has been completed in the project and therefore the project should now continue to progress to get commissioned in FY 14 as we had mentioned before. Kalinganagar project with both the phases is moving, the phase one has started to move on ground, the project work in terms of piling etc. has well progressed and the phase two which is the coal based 450 MW project for which the project development activities have also advanced. For the other projects that we had from time to time talked about in terms of the Jharkhand project, or the project in Orissa as also in Maharashtra the land acquisition work is progressing and we would have more to report about that in the subsequent quarters about that. So with that I would invite analyst friend to have their observations and questions and will take them up as we hear one by one. Thank you and look forward to hearing from you.

Moderator Thank you very much Sir. We will now begin the question and answer session. At this time if you would like to ask a question please press * and then 1 on your touchtone phone. Participants are requested to use only handsets while asking a question. The first question is from the line of Mr. Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel Thanks a lot Sir and actually thanks on behalf of the analyst fraternity for providing the result on time, we could actually go through the results this time. One question is that from the Mundra plant. This quarter we are reporting a loss of 165 crores versus, what we were expecting on an annual basis between 400 to 500 crores, so how should we see this losses number panning out in a full year of operation basis that is my first question?

Anil Sardana You want us to answer.

Prakash Goel Yes I want you to answer this question, because I have related questions with Mundra plant.

Anil Sardana Okay two things number one there are a lot of costs in this which are pertaining to the whole project commitment, in terms of the O&M or port service agreement so therefore it is not reflective of all the units including the shipping and etc. Number two as we report the results of the last quarter the blends were progressively taken up, this is not reflective of the 70-30 blend on which we have stabilized now. The last quarter was with the blend of about 40%, so those are the two factors which does not reflect as to how the annual figures will pan out.

Prakash Goel Right so how should we look at the annual number what should be the guesstimate from your side about the annual loss in the Mundra at the 70-30 blend, if you presume the going rate of the currency as well as coal?

Anil Sardana In June our figure of EBITDA was positive, I can only say that now we have reached a time that all our EBITDA from the plant Mundra plant are positive, so there is a positive contribution to the interest component that is first part, I wanted to say and you can take an idea of about 40 crores would be approximate figures for a month in terms of the PAT.

PrakashGoel 40 crores loss you are saying per month?

Anil Sardana That is correct.

Prakash Goel Right so that is broadly line with your earlier guidance Sir?

Anil Sardana That is for you to assume but broadly.

Prakash Goel Broadly like when we discussed in one of the meeting what we were being suggested that the annual losses would be in the range of 400 crore to 500 crore, so like 40 crore loss at per month level that was observation? The next question is with regard to Mundra again that the project cost and contribution as per the annual report and the latest presentation are different so would like to know what is the latest number with regard to the project cost and the contribution?

S. Ramakrishnan Mundra latest cost.

Prakash Goel Yeah what is the project cost because the annual reports suggest 18,000 crores analyst presentation is 17,000 crores and second is about the contribution what is the total contribution from the same?

S. Ramakrishnan See the project cost if you take it in rupees and dollars by and large remains the same. It is the dollar that we convert from quarter to quarter that swings the project costs. So that is why we are not trying to confuse you because we will keep constantly moving. And as the commissioning dates are announced the exact IDC is calculated instead of the actual one.

PrakashGoel Okay Sir we should work with the 18,000 crore number?

S. Ramakrishnan Yes I think you could and if FOREX weakens further than you should worry it could move up and if it pulls back we should be happy as it could sort of pull back.

Prakash Goel My last question is with regard Bumi realization and the cost of production so if you can share that number I can finish?

S. Ramakrishnan The coal mined this quarter is 16.4 million compared to 15.54. Coal sold 16.35 compared it to 15.28 and the realization is $84 compared to 94.

PrakashGoel And what was the cost of production?

S. Ramakrishnan The cost of production is up from 40.5 to 48.92 this is compared to the last years Q1 not compared to last year's Q4.

Prakash Goel Okay when we spoke in the last analyst conference call it was suggested that the $47 cost in the Q4 would come down what has changed in this particular item?

S. Ramakrishnan Last quarter there has been a fair amount of difficulties in production because of rains, in spite of the increased production due to which, there has been some increases in demurrage compared to whatever else we have been paying before. So the cost of production has sort of gone up and secondly rains do cause a certain amount of disarray in terms of utilization of equipment and fuel like that it makes the cost of production somewhat inefficient. In fact we were I think sharing with you that we are expecting a $2 to $4 reduction as the infrastructure facilities are commissioned for the year that has not happened in this Q1.

Prakash Goel Okay so incrementally we should be we are working with the number for the full year that costs should come down from $48 something like $44 for the full year?

S. Ramakrishnan See targeted production should have been far higher than the increase that we have achieved, we have not been able to achieve the production that we targeted due to heavy rains this quarter.

Moderator Thank you. The next question is from the line of Mr. Abhishek Thyagi from CLSA. Please go ahead.

Abhishek Thyagi A few questions firstly with the 70-30 blend which you are currently doing at the Mundra has there been any impact on the heat rate of the boilers as well as the auxiliary consumption has that increased because of that?

Anil Sardana Abhishek as informed before we have had that impact of 2% on the heat rate.

Abhishek Thyagi And Sir and from the auxiliaries will that also increase?

Anil Sardana Yes the auxiliary part has also marginally changed.

Abhishek Thyagi Okay and Sir with respect to Maithon with all your doings getting middlings from Tata steel you try and import coal as well and shipping by road will you be able to show availability of 85% for both the units in the current fiscal year?

Anil Sardana Not sure what we have today is an off take guarantee of 75% out of the total capacity. We will for sure show the 85% after off take guarantee, and so the balance we will be merchant. Therefore we should be able to recover our fixed cost through our committed customers, and the balance based on the merchant power rates we should be able to make money out of that part.

Abhishek Thyagi Okay Sir coming back to Mundra again Sir what was the PLF during the quarter and at what utilization date are you planning to run these units from?

Anil Sardana Are you seeking because in this last quarter one we had only unit one which was operating, and we do not talk about PLF we talk about availability because that is what recovers our fixed cost. Let me check and let you know what is the availability for us. I am told the availability 82% so as you know that our fixed cost recovery is at 80% and we had mentioned that we will want to maintain round about that figure, so our availability for quarter one was 82%.

Abhishek Thyagi Okay Sir the corresponding utilization rate would be can you share that figure for the quarter?

Anil Sardana About 70%

AbhishekThyagi Okay and Sir there were some problems with unit one of Maithon there was some teething problem those have been sorted out?

Anil Sardana Yes the unit both the units are running now.

Abhishek Thyagi Okay so there is no problem with respect to the equipment as of now?

Anil Sardana No.

Abhishek Thyagi Okay thanks a lot Sir. Thank you.

Moderator Thank you. The next question is from the line of Mr. Dharshan Dodhia from ICICI Direct. Please go ahead.

Dharshan Dodhia Thanks for giving an opportunity Sir two questions on Maithon first is you said to the previous analyst that you will be recovering 75%, you will be operating the plant this year at 75% and for that you will be recovering the entire fixed cost?

Anil Sardana What I mentioned is that we have PPAs, firm PPAs for 75% of the name plate rating there we will meet our obligations to recover our fixed costs with the coal that we are, getting the point the balance generation that we will do based on the coal that we are able to bring to the plant by trucks and sell it in merchant market.

Dharshan Dodhia And Sir then in ratio what will be the coal mix in terms of imported coal, FSA's as well as the middling you will be sourcing from Tata steel?

Anil Sardana We do not require to bring any imported coal, we have done that as I said for us to know what would be the cycle time to get the coal from outside right-up of the plant. So this was more to know and also to know as to how much we can blend, but we do not need to bring any imported coal, we do not need to bring anything else other than the contracted coal because both BCCL as well as CCL have provided us the mines with as much coal that we want to off stake the sale is available to us. There is an impediment from our side that we can take up to about 10,000 to 10500 tons of coal in trucks per day and that is what they can bring at this stage or we can handle at this stage therefore we do not need to get into any other solutions.

Moderator Thank you. The next question is from the line of Venkatesh P from Citigroup. Please go ahead.

Venkatesh P What was Tata Power share of depreciation and amortization cost in the coal mines in the first quarter?

S. Ramakrishnan The total depreciation of 100% is $85 million.

Venkatesh P So 30% of that?

S. Ramakrishnan Yeah.

Venkatesh P Now, I am a little confused. Now, what I can deduce from your first quarter presentation it says that in the consolidated fuel cost, fuel costs have gone up by 166 crores because of Mundra, which basically means the fuel cost in the first quarter for Mundra was 166 crores because last year Mundra was not operating. According to the CEA generation, you have generated roughly around 1051 million units in the first quarter which means your fuel cost is

Rs. 1.58 unless you capitalize any part of the fuel cost in the first quarter. So the question is have you capitalized any part of the fuel cost in the first quarter?

Anil Sardana To the extent that fuel has been used for Unit II commissioning, right. That is the only component that has been capitalized.

Venkatesh P So what is the capitalized amount?

Anil Sardana That must be very little.

Venkatesh P Okay. How much did you generate in Mundra last year including the in-firm power?

Venkatesh P In the fourth quarter how much did you generate in Mundra?

S. Ramakrishnan We are not comparing fourth quarter. The comparison that has been sent to you is Q1 of FY13 compared to Q1 of FY12.

Venkatesh P No sir. I am not trying to compare anything. I am just asking how much did you generate in the fourth quarter? That is all.

Anil Sardana There was only seven days of generation, boss.

S. Ramakrishnan 13 or 14 MUs.

Anil Sardana You ignore it.

Venkatesh P Because last year what data I have suggest that you have sold like almost, according to your annual report of Mundra, it says you sold 249 million units. If you have not generated how have you sold? You sold infirm power of 214 million units and you have sold 35 million units in a PPA.

Anil Sardana Let me explain. The infirm power would mean at that time unit was not put to commercial operation and the unit was being piloted with different test, etc., that we had to do it in Unit-I, that is what you must have read as infirm power.

Venkatesh P I tell you where I am coming from. According to your last year's annual report, it suggest that 17 crores is your fuel cost and there is a capitalization of 144 crores which means that the total fuel cost in last year was 161 crores. If you have generated total infirm power of around say 249 million units, it is basically working out to a fuel cost of Rs. 6 or so last year. So, am I getting something wrong here?

Anil Sardana No, possibly you are getting it right, because that primarily will contain quite a large volume of oils. What you are saying is not wrong. When you take oils as a medium to do that it will be that type of a cost.

Venkatesh P Okay, if I could move on to the next question, you tied up 1 million tonne of coal middlings from Tata Steel. Can you tell us what is the calorific value of the middlings and what is the cost per tonne?

Anil Sardana I do not have it readily but the middlings normally will be upwards of 4000 kCal and we do not have details of the cost.

Venkatesh P Okay, sir. In the first quarter did Maithon book any power purchase cost or differential cost of power supply in the first quarter like last year?

Anil Sardana No. Except from the UI maybe because of schedule, marginal. Not like last year when we had to buy a third-party power to meet our requirement.

Venkatesh P In terms of the offtake I just got a little confused, 75% of the power you will be selling under the PPA under regulated ROE and 25% this year will be merchant because I think Punjab state you have not confirmed the PPA yet, right?

Anil Sardana Right.

Moderator Thank you. The next question is from the line of Parag Gupta from Morgan Stanley. Please go ahead.

Parag Gupta Just two questions; one is actually a clarification from what Venkatesh was asking. If I look at your Mundra numbers, you are talking about 166 crores fuel cost and based on the generation data that I have suggest that you have generated about 130 crores of units in Mundra, which works out to a fuel cost of about Rs. 1.28. So, wanted to understand if fuel cost assuming FOB pricing of coal or is it actually assuming landed cost of coal which includes port charges? That is the first question.

S. Ramakrishnan Includes everything. The 166 crores is the difference between this year and last year. Last year some fuel has been used during the project a nominal amount and some amount of port charges have been paid and some take or pay and shipping has also been paid. The 166 crores is not fuel this quarter, it is actually 249 crores.

Parag Gupta So you are saying the actual fuel cost number for the quarter would be about Rs. 249 crores?

S. Ramakrishnan That is right and that may have a small part of take or pay in the port as well as take or pay in the shipping cost.

Parag Gupta Right, got it. So to that extent, as your units ramp up that cost would not go up because of ….?

Anil Sardana Spread over more units.

Parag Gupta Right. And just a related question to that, how much coal did you use which is high quality coal that was shipped in before the Indonesian regulations came into force?

S. Ramakrishnan Most of it…..

Parag Gupta So that means going forward, whatever coal you consume is, ideally be the coal either being imported under current prices or the eco coal that is coming in at lower prices?

Anil Sardana Correct.

Parag Gupta Okay. And just finally, on this coal agreement that you have signed with PT Antang, can you just help us on what would be the volume offtake and when is this likely to start?

S. Ramakrishnan It is about half a million or so and as they ramp up ours will go up to maybe 2, 2.5 million tonnes.

Anil Sardana Ultimately to about 4 million tonnes depending on when we ramp it up to close to about 10 million tonnes.

Parag Gupta So that means that the final offtake is going to be about 10 million tonnes as and when they ramp it up to?

Anil Sardana About 4 million tonnes.

Parag Gupta And this 0.5 million tonnes delivery starts in which year?

Anil Sardana It is up to us to do that.

Moderator Thank you. The next question is from the line of Mohit Kumar from Antique Stock Broking. Please go ahead.

Mohit Kumar My question is that there is a (-155) crores revenue adjustment pertaining to prior year. Can you just throw some light on that?

S. Ramakrishnan The Maharashtra regulator introduce multi-year tariff regulation effective 1st April, 2011; however, there was a considerable amount of time taken in the various processes due to which he decided this quarter that he will make it effective only from 1st of April, 2012. Our entire last year's accounting has been made on the basis that MYT regulation is applicable from 1st

April '11 and hence we had reversed 155 crores, that is the common substance. Was the regulator right in doing it, are we challenging it, what success rate we will have if we challenge are different issues.

Mohit Kumar Do they reverse only on account of return on equity which must be lower on the lower CERC regulation?

S. Ramakrishnan There are operating parameters also. It is a combination of return on equity as well as there is operating parameters, combined.

Mohit Kumar What is the timeline Maithon railway line?

Anil Sardana We hope to start the construction on the ground by end of this month and then the whole process is expected to take anything like 8 to 9 months.

Mohit Kumar And are we supposed to confirm the Punjab PPA, what is the plan right now?

S. Ramakrishnan We are examining the implications of confirming or non-confirming for all points of view. We are yet to take a final decision.

Moderator Thank you. The next question is from the line of Abhishek Puri from Deutsche Equities. Please go ahead.

Abhishek Puri Just a couple of questions; one, on Mundra again. The costing which you mentioned of 249 crores of fuel cost and if I add up the losses that they have 165 crores, the breakeven tariff for Mundra would be about 3.40. Is my calculation correct or am I missing something there?

S. Ramakrishnan Typically, if you broadly see compared to the tariff we are entitled to under the PPA, if we get an extra 40 paise we will breakeven which means we would not make a loss so we would not make a return. If we get 65 paise we will get reasonable returns. Compared to what we are entitled to under the PPA those are the broad numbers

Abhishek Puri And this 40 paise is considering the currency depreciation which has happened and of course the coal prices which have come up by 20%?

S. Ramakrishnan All of that, but you know that we are entitled to some reimbursements and so I am ignoring. That is why I said whatever I am entitled to as per the PPA I need to get an extra 40 paise roughly to breakeven and then an extra 65 paise also for making reasonable profit.

Abhishek Puri And this 40 paise that you are asking for is that applicable for say next 25 years of tariff or you are asking for next five years of tariff wherein we had a fixed price contract with?

S. Ramakrishnan I thought you wanted to know where we are breaking even, independent of what we are asking for.

Abhishek Puri No, I am asking from a petition point of view that you have filed with CERC.

S. Ramakrishnan What we are asking for is a principle of how to modify the principle in the PPA for the entire PPA period and what we had given you is our estimate for the first year.

Abhishek Puri And in terms of the principles if you can elaborate what you are asking for? And secondly, I think few of the news reports quoting that Discoms have denied any kind of tariff increases at this point in time.

Anil Sardana I do not know which newspapers have stated that, but just to tell you official position with regard to what is happening at the CERC is that the petitioner which is us and the beneficiary which is led by Gujarat, supposed to file an affidavit by 14th of September in terms of the fact whether we have any resolution that we can do between us. If that does not happen then CERC will go ahead and hear the petition. So that is the official position. I do not want to comment on what you just mentioned. So I am not aware of what else is the view of somebody.

Abhishek Puri And regarding my first question on this if you can help us understand what you have really asked from CERC in terms of the framework?

Anil Sardana It is very simple that we in our energy component of tariff have two parts; one was non-escalable, the other one was escalable component. Now, escalable component works well for us both in terms of the fuel price and also in terms of the other parameters of foreign exchange because it is quoted in dollars. The limited point that we are asking is since there is a change of law and there is a change of price make our non-escalable component as escalable.

Abhishek Puri Last question on NDPL. If you can guide us in terms of 1) what is the billed tariff that we have reported in the first quarter versus what has been accounted? 2) If the regulations which have recently come in, the orders by DERC your operations is breakeven over there?

S. Ramakrishnan The first quarter did not have any change from the old tariff because the new is tariff effective for billing only from Q2. So, the old tariff if at all he had I think some power purchase adjustment cost as compared to Q4. Other than that you will not see any…..

Anil Sardana That too was partial because the rest is going to be applicable from October.

S. Ramakrishnan Yeah, so there is nothing that you see from that point of view. Now, the new tariff that has come in from this quarter will sort of help us in terms of a) the regulatory asset not going up, and b) recovering the cost of regulatory assets which is called the interest cost but it is not likely to bring down the regulatory assets in any significant way this year.

Moderator Thank you. The next question is from the line of Bhavin Vithlani from Enam Securities. Please go ahead.

Bhavin Vithlani On the UMPP debt of 14,000 crores if you can help us breaking what is it rupee denominated and what is the dollar denominated debt? That is my first question. Second is in the IEL, you highlighted in your presentation remarks that the Phase-II of 450 MW is in the advanced stages and Phase-II the work has started. So if you can give us few data points on capital cost on both Phase-I and Phase-II and likely commissioning the targets? And third is in the last conference call you had highlighted about you were commissioning by award of equipments at both the Jharkhand and the Orissa projects, so if you can give us an update both the expansion projects?

S. Ramakrishnan This is the end of June, that is Q1, the total rupee loan was Rs. 4200-odd crores and the foreign debt was $1300 million.

Anil Sardana Kalinganagar project has two phases. The first phase is using the waste gas from the steel manufacturing and the second phase is using coal-based generation….. The work has started on the first phase on ground. The estimated cost and the capacity at the first phase is about 200 MW and the cost is about 1000 crores. The second phase is another 450 MW, maybe over 2000 crores but once we decide the timing of that we will finalize firm of the cost in a better fashion

Bhavin Vithlani What is the likely commission deadline….?

S. Ramakrishnan The first phase is due for commissioning in 2014 along with the plant.

Bhavin Vithlani Q1 fiscal 2014?

Anil Sardana That is right.

Bhavin Vithlani And the second phase?

Anil Sardana The second phase will be somewhere in 2015. In fact, the exact dates would be known once the main plant is ordered.

Anil Sardana We have started to work, we have got clearances in terms of the aviation clearance, the environment clearance but in terms of ordering we are just finalizing some of the key parameters that will link up to the steam requirements of steel plants, etc. As soon as we ordered then we will let you know the exact date.

Bhavin Vithlani And the cost plus 18% ROE, would those be same or were any changes in there?

Anil Sardana No, it was never 18% ROE. It is going to be regulated returns.

Bhavin Vithlani So cost plus 16%?

Anil Sardana That is correct plus there will be incentives of course.

Bhavin Vithlani And the last question is on the Orissa and the Jharkhand projects, Tiruldih, Naraj Marthapur, status of that, when do we expect the expansions to come in?

Anil Sardana In terms of Tiruldih we have acquired close to about 35% of the land which is on Tata Power name, balance about close to 25% land today, the documents to move from the existing owners to Tata Power is underway. So the land acquisition process is taking time. As far as the coal block linked to that is concerned, as you know, there are two coal blocks that are linked; one, which is our own, in which we are in joint venture with Hindalco, so that project is progressing, as a schedule we have told you earlier that we are targeting FY14 as the time when we would be able to have coal from there. And the other is the Ganeshpur Block which is with Tata Steel and there as of now we have the petition that it will be towards the end of FY14 or FY15 that we can have the coal. So that is regarding Tiruldih. You can assume that therefore we have to target the units to be on steam by at least FY15 so that the coal is available by that time and we are able to have the units ready too. On the Naraj Marthapur we have no line of sight in terms of the meeting that Chief Minister of Orissa has to have on the wildlife clearance. So, we are working towards alternates in terms of ensuring that our Mandakini coal which we expect would be available before the Tubed coal and therefore we are trying to spurt a possibility of locating and using that coal alternatively at some other sites in Orissa. We will let you know more as we finalize the details.

Bhavin Vithlani And a last follow-up question is, in this quarter what was the depreciation and amortization for the coal company?

S. Ramakrishnan $85 million, 100% basis.

Moderator Thank you. The next question is from the line of Sumedh Chaudhary from Jefferies. Please go ahead.

Sumedh Chaudhary I just had questions on Mundra. In the case that CERC does not hike tariff and you decided to give to lenders, in the hypothetical case will they be able to hike tariff, is there any provisions such that?

Anil Sardana If the states are which the lenders takeover that stage is when you assume that we sort of wish to move away from the ownership of the project and we do not wish to comply with the requirements. In which case there are two possibilities. One, the lenders have to take over provided the beneficiaries want lenders to take over that plant and run that plant. That will entirely depend on the two sides arrangement.

Sumedh Chaudhary And in that case would there be any penalty on Tata Power?

S. Ramakrishnan We lose the project no. Is not that good enough for the penalty?

Sumedh Chaudhary And one last question, in the media articles it is quoted that you have sought tariff of Rs. 3 per unit levelized tariff. What would it mean in terms of today's tariff?

Anil Sardana I told you, we have not sort any tariff figures, we have just simply said that the non-escalable portion be made escalable.

Sumedh Chaudhary In the case that CERC does not hike tariff, what are the options you are looking at?

Anil Sardana Entirely hypothetical. Why are you assuming this?

Sumedh Chaudhary Okay, thank you sir.

Moderator Thank you. The next question is from the line of Vaishnavi G from Citigroup. Please go ahead.

Vaishnavi G One question, what would be the cost savings in the Mundra project when the 30/70 planning is achieved?

Anil Sardana 70/30 blending is happening now when we are running the unit. We could achieve up to graduated blending of the order of 40% in the last quarter. You can work the savings because it will all depend on the coal price from time-to-time, it is not linear discounting, as we said we buy echo coal for non-linear discount. So, it moves the unit discount anything between 15 paise to 20 paise.

Vaishnavi G Can you give us a ballpark figure of how much percentage of cost production can be achieved?

Anil Sardana I said in any unit that we generate anything between 15 paise to about 20 paise.

Moderator Thank you. The next question is from the line of Bharat Gorasia from ICICI Bank. Please go ahead.

Bharat Gorasia I just have a couple of questions. Just wanted to know considering the coal prices have come down recently, what would be the current coal prices you are selling as compared to the 85 for the last quarter?

S. Ramakrishnan The realization is a bit of problem. In the sense that we have certain parts of the contract which are an annual price, so we fix certain bulk of the contract are linked to the HBA price that are announced from time-to-time and certain pies are yet to be priced. So, typically when the price falls by x dollars, it probably hits us at anywhere between one-third to 50%. And same thing applies when it goes up. There is a lead lag between the market price that we hear, between the spot price we hear and our realized. For example, in Q1 you saw that we fell between last year and this year $10 but if you see the actual spot probably between last year and this year the fall would have been far greater than the $10. So that is the way it sort of work and it is the same way it works against this when the price starts moving, we had to wait for that time before we catch up with the market.

Bharat Gorasia So that is what I wanted to understand, because the coal prices have come off significantly if you see Richards Bay or New Castle coal. And most of it like the realization seem to be slightly higher.

S. Ramakrishnan Normally, there is roughly about six months lead lag between the two. So if the price falls $5 today, you will see six months down the line our realization dropping by that extent roughly, I am just giving you a thumb rule.

Moderator Thank you. The next question is from the line of Harshit Shukla from Emkay Global. Please go ahead.

Amit This is Amit from Emkay. Two questions; number one is that your interest cost on the perpetual debt which is there. What I understand is debited from the appropriations, which is from the profit. Just wanted to understand under Income Tax Act is it a deductible expense?

S. Ramakrishnan We have been advised that it is a deductible expense.

Amit And second thing is on the Mundra. You said that about 40 crores is the per month loss which you are looking at post 70/30 blending. Is it with the second unit commissioning assumption or is it for the first unit itself?

S. Ramakrishnan It is average expectation for the year.

Amit And if you could give some idea about how much of the charges, which is related to take or pay is there out of 249 crores of fuel cost which is there?

S. Ramakrishnan Maybe about 40 crores.

Amit This is what will actually get distributed going forward?

Harshit This is Harshit from Emkay. The 40 crores quarter is the run rate that is for the full plant, right?

S. Ramakrishnan No, 40 crores per month is average, per month in the current year.

Harshit But this will go up as and when the new units commission as well?

S. Ramakrishnan As the unit get commissioned there will be some improvements in the mix because the average mix last quarter has been lower, there will be increases in interest depreciation, may not be directly because the first unit takes the bulk of the supporting infrastructure and all those in the capital costs, and the coal costs are easing as you know.

Harshit But when our entire capacity gets commissioned, what would be the full year port charges or take or pay charges which are related with shipping or….

S. Ramakrishnan All units have commissioned. The variable parts will operate in addition to of take or pay guarantee. All these are linked to a certain variable payments subject to certain minimum guaranteed amount. So the take or pay burden operates only when the volumes are not adequate enough. In fact, even the fourth units commissioned, the bulk of the take or pay obligation vanished in the variable payment system.

Harshit Then on per tonne basis how much would it be variable cost?

S. Ramakrishnan It is Rs. 130 per tonne of coal I believe.

Moderator Thank you. The next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah Two things; one, in your coal mining cost, there has been evident increase in the coal mining cost. So, is there a component of the cost which would have incurred this time which may would have otherwise been capitalized, which would have otherwise done. So to that extent, cost in the subsequent quarters may come down. Is that the correct way of looking at it?

S. Ramakrishnan The right way to sort of look at is between Q4 and Q1, let me tell you, in Q1 the cost including depreciation was about $54, whereas in Q4 it was $53. So, the increase is not as sharp if you look at from quarter-to-quarter, particularly I talked about the demurrage that we had to pay to the ships because of the rain affecting our schedule production. So, it looks stark because you are comparing it to Q1 of last year since when certain increases have taken place, certain regulatory requirements of provisioning and certain stripping ratios, all those have gone. But if we see between Q4 and Q1 now, the increase is marginal, probably more cost due to logistics reasons other than the true operating cost. We were expecting a reduction that has not come about because as the new infrastructure helps to increase the production we thought the cost will come down, that has not happened yet, because the production has not gone up the level we thought it will go up though it is higher than last year.

Ashish Shah If I may just one other question, Q-on-Q, in Q4, you had production of about 15.8 million tonnes. This time we have about 16.5 million tonnes. And the coal processing charges as we see have gone up from like 376 crores in Q4 to almost 600 crores this time. So that is like an out of proportion increase in just like one quarter. That is what my main query was.

S. Ramakrishnan One of the infrastructure subsidiary that we have created along with them has been setting up additional coal processing facility and their lease agreement is a certain fix payment by a certain date, whether the facility is commissioned or not. That is one way of funding the interest payments during construction of the facility due to which the amount has gone up. It will even out once the production picks up because you can say this is a precommission cost which KPC, Arutmin are made to pay. So, while it is a sort of reduction in KPC it is helping to set up the facility on the other side of the infrastructure subsidiary. In the combination it is sort of vanishes.

Ashish Shah They should even out as you are saying that as far as volume goes up?

S. Ramakrishnan That is right.

Ashish Shah Secondly, the revenue reversal of 155 crores in standalone accounts, would that have been eligible for tax shield this time?

S. Ramakrishnan Of course.

Ashish Shah So if we are adjusting this revenue one should also adjust the tax on this?

S. Ramakrishnan Yes

Ashish Shah So what is the tax component that one should adjust in percentage terms what is the tax….?

S. Ramakrishnan So far we are on min tax on reporting tax only. So roughly about 20% you can say.

Moderator Thank you. As there are no further questions I would now like to hand over the floor back to Mr. Anil Sardana for closing comments.

Anil Sardana Thank you, Mohsin for conducting this call. Thank you to all the analyst friends. In case you still have questions you are most welcome to write to our coordinator, Priti and she would make sure that you get the response in time. Thank you once again and look forward to being on the call next quarter.

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