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“Tata Power Q1FY16 Earnings Conference Call”

August 13, 2015



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TATA POWER
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TATA POWER
MR. RAMESH SUBRAMANYAM – CFO, TATA POWER**

Moderator: Ladies and gentlemen good evening and welcome to the Tata Power Q1FY16 Earning Conference Call. We have with us today from Tata Power Mr. Anil Sardana – CEO & Managing Director, Mr. Ashok Sethi – COO & Executive Director and Mr. Ramesh Subramanyam – CFO. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anil Sardana. Thank you and over to you sir.

Anil Sardana: Thank you and good afternoon. A warm welcome to all the analyst friends on the call. I am sure by this time you would have had all the desired information and the details from the company on the Q1FY16 Results. As mentioned in our press release, we are generally very happy with the all-round operations of the company in Q1. Almost all units have done certainly better than the annual business plan that we had for them, considering the fact that there has been a general problem in the off take by several discoms and issues of how things have moved. I think our teams have done quite well and in all operations including search of the target areas, like CGPL, Maithon, Solar they have all done quite well and we have had therefore a good contribution from all of them.

So we will look forward to your questions and hopefully have a good discussion in the next one hour or so. Please go ahead with your questions.

Moderator: Thank you very much sir. Ladies and gentlemen will now begin the question and answer session. We have first question from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: Could you please begin by giving us an update on the Mundra UMPP in relation to the compensatory tariff? Where does the matter stand now?

Anil Sardana: Sumit, there is no change. The APTEL was in recess and just before the recess as I mentioned last time, there was an order which stated that a panel of three members would hear the balance matter and as you know that one of the member had superannuated and therefore they were waiting for the nomination of one member by the authorities which has been done only this week and so once that member takes charge the full three member panel will get constituted and therefore we can only expect that by end of this month the deliberations on the matter would start. Whether they would hear it from start or they would hear from where the previous panel left the matter that is for us to wait and see. If they can start that they will hear on limited issues then it could be faster, otherwise it could take its own time.

Sumit Kishore: Could you give us a data point on what was the total fuel cost from Mundra UMPP during the quarter, fuel cost per unit sold in Mundra?

- Ramesh Subramanyam:** Fuel cost for the quarter is only FOB call is 1.48.
- Sumit Kishore:** Just this observation that the decline in the landed cost of fuel at Mundra UMPP has been quite modest in comparison to the overall decline in benchmark coal prices, particularly Indonesian prices, so could you give us explanation there?
- Ramesh Subramanyam:** Broadly due to coal mix. There is high CV mix which is there that is when it is improved, the higher CV you use the higher average cost of coal you normally get. So it is more to do with that.
- Sumit Kishore:** But I am looking at it more on a year-on-year basis. The decline in coal prices have been lot higher while the PLFs are also similar for the June quarter last year and this year. But the decline in the landed cost does not seem to be...?
- Ramesh Subramanyam:** the way it goes is that we achieve an optimum efficiency in buying for certain high CV coal and low CV coal. Last year we had a higher percent of low CV coal compared to this year. So therefore while our overall cost was more or less same at the generation level, cost of buying has been flat. You understand that? Therefore cost has been flat, however the generation cost product mildly gone down because we keep balancing between when the prices come down we try to use better quality coal that is good for plant, as long as the generation cost is not increasing. So we keep managing that balance really carefully.
- Anil Sardana:** Other point Sumit, just want to add to what Ramesh just mentioned that the plant load factor, in spite of availability being similar in two quarters, was lower from the state procurers. When that is lower then naturally the auxiliary power consumption gets spread on less number of units and therefore also per unit cost shows differently, right?. Those are some of the factors, those are very fine tune factors because we monitor each aspect. The kind of also leads to some of the observations that you are making.
- Sumit Kishore:** But on a percentage decline on year-on-year basis would be in excess of 10%?
- Ramesh Subramanyam:** You mean about the purchase price?
- Sumit Kishore:** No, 1.48 paisa per KWA.
- Ramesh Subramanyam:** No, it is not because it all depends as we just said on the PLF and the efficiency that are obtained and sometimes also the plant operational performance in that period. So they all can contribute to a different result and just a linear result due to the coal price increase.
- Sumit Kishore:** My last question, in your consolidated financial results, you have put a regulatory income or expense and there is an adjustment below the EBITDA line below finance cost. Could you please explain what this exactly is, it says that disclosure on account of guidance note on

accounting for rate regulated activities. Not very sure. So should we treat this as above the EBITDA line?

Ramesh Subramanyam: Yes. Earlier this was always in the revenue line. So because of this new accounting standards, anything that is affected by the rate related increase comes down below the line. Now for all practical purposes there is the same revenue accounted on a regular basis and what we call as regulatory asset. So there is no change fundamentally just because it will be shown below the line here.

Sumit Kishore: But this is pertaining to the Bombay regulated business or Delhi?

Ramesh Subramanyam: It is consolidated its Delhi and Bombay.

Moderator: Thank you. The next question is from the line of Hardhik Shah from ICICI Securities. Please go ahead.

Prakash Goel: This is Prakash Goel from ICICI Securities. My question is with regard to CGPL we are seeing the performance improving. So what I wanted to know that there is a lead lag impact in terms of CERC, like the coal calculation and in the falling price regime, I would want to know should we look at the current level of PAF and PLF company accounted for an EBITDA of 320 crores in this quarter. What would have been the impact like now say if we adjust for this fall in coal prices?

Ramesh Subramanyam: The lag effect is not very much. This is really not what you are seeing is the spurt EBITDA is not due to that, the spurt in EBITDA is generally what you call, lower coal price and also in the fact that there is some billing related issues which were pending agreement with some of the procurers that also got cleared. So combination of coal price as well as that.

Prakash Goel: My second question with regard to the change of law, like ignoring the Indonesia part, they would be like one, there has been an increase in the MAT rate and many other change of law which has impacted the project cost, have you filed any gain further for with that the regulator?

Ramesh Subramanyam: Yes, where there is a change in law we do go to the regulator and speak with them.

Prakash Goel: So have you got any benefit on that account because the MAT rates have gone up and since you have...?

Ramesh Subramanyam: Unfortunately, there has to be a profit to apply MAT.

Prakash Goel: With respect to the project cost, sir?

Ramesh Subramanyam: Project cost related we have already, since the project is over we have an exact idea about what are the impacts on the project cost and we are already filed it adequately.

- Prakash Goel:** Would it be possible to share that the information what is the total cost...?
- Ramesh Subramanyam:** They are not numbers which are very material.
- Prakash Goel:** My last question is with regard to the debt from Tata power, which is not been accounted in performance of CGPL this quarter, what has been the amount sir?
- Ramesh Subramanyam:** That is about 80 crores.
- Prakash Goel:** So on a Q-o-Q basis or a Y-o-Y they should add that 80 crores of PAT to evaluate the performance?
- Ramesh Subramanyam:** If you are comparing year-to-year then difference 30-40 crores.
- Prakash Goel:** On Q-o-Q?
- Ramesh Subramanyam:** Yes.
- Prakash Goel:** And year on year 80 crores.
- Anil Sardana:** No. You take 42 crores as the right figure.
- Moderator:** Thank you. The next question is from the line of V. Balasubramaniam from Citi Research. Please go ahead.
- V. Balasubramaniam:** Can you just explain this 42 crores thing which you said, is it like Tata Power has given a loan to CGPL where interest has not being accounted for in the P&L or something like that. Is it related to that?
- Ramesh Subramanyam:** Yes.
- V. Balasubramaniam:** So if it had been accounted for the profit would have been lower by 42 crores, is it?
- Ramesh Subramanyam:** CGPL profit.
- Anil Sardana:** On a consolidated basis, nothing.
- V. Balasubramaniam:** Okay, now in this quarter is there any VAT receivable exchange rate gain loss, anything, related?
- Anil Sardana:** You are talking about CGPL?
- V. Balasubramaniam:** No, I am talking about the coal mine.

- Anil Sardana:** Nothing.
- V. Balasubramaniam:** What I was wondering is if I actually look at your presentation where you give that coal companies data, you see net revenue after royalty and cost of production if you just adjust that. Subtract cost of production from net revenue from royalty. For first quarter FY16, the differential is roughly around \$10.1. Now if you see the fourth quarter of last year, the differential is approximately \$9. So actually, your spread has increased by \$1 and you have basically sold the same amount of coal but yet fourth quarter of last year you had a 211 crores EBIT where as you have 81 crores in this quarter and why is this fall in the EBIT in this quarter? Is there any exceptional item in the fourth quarter of last year or is there exceptional item in this quarter?
- Ramesh Subramanyam:** I think you need to just check post inventory adjustments and get in touch with Shubham for the details.
- V. Balasubramaniam:** The other question I had was, in the consolidated numbers you have taken something like a 66 crores provision for Mandakini diminution in value, is that the same number even in the stand alone financial or is the number different?
- Ramesh Subramanyam:** Slightly different because it depends on how much is the investment value in the books in the standalone but more or less is the same.
- V. Balasubramaniam:** But is it in the same ballpark or because if I...?
- Ramesh Subramanyam:** Same ballpark.
- V. Balasubramaniam:** Okay, now can you also remind us why last year, IEL first quarter there was a loss?
- Ramesh Subramanyam:** There was a change in the depreciation method, which resulted in impact on deferred tax.
- V. Balasubramaniam:** And also in Maithon the reason why your profits and EBITDA looks better is because in the second half of last year you got your tariff order, am I right?
- Ramesh Subramanyam:** Right.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.
- Mohit Kumar:** In this quarter done this accounting for rate regulation. I believe that this can only be done when we have some asset which capital cost which are not being approved by the regulator, am I right in saying that?

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Ramesh Subramanyam: No, it is a different one. In accounting standard, this is applicable to rate what are called the price regulatory into these in, our case it is a distribution business and there you have to display any impact on what you recognize as regulatory adjustments to be recovered later or previous year regulatory asset being recovered now through billing, both will show separately below the line.

Mohit Kumar: I understand that for Maithon you are trying to sell 300 MW to Kerala. Am I right? Has somebody there not willing to take the power?

Anil Sardana: If you remember, we have PPA of 300 MW respectively to Delhi, DVC and West Bengal. So it is only 150 MW that we are taking to KSEB. We understand that DVC wants to also look at the option of their trading additional 150 MW with kerala but that is only ultimately between DVCs share that if Kerala is interested that could go additionally to them. But as far as we concerned as Maithon power limited, we have officially taken up for 150 MW which now we have got from the clearances and it will start flowing from the month of October to Kerala.

Mohit Kumar: In Ideal Energy, have we signed any PPA with Ideal Energy and are we seeking an approval from MERC?

Anil Sardana: So Ideal Energy has filed a petition with MERC seeking for part of the power to be brought to Mumbai. At this stage that petition has not been admitted, but we know for sure that they have filed but still not been admitted.

Mohit Kumar: What is the quantum sir?

Anil Sardana: The quantum details I think if you can just wait because what I understand in the revise petition they seems to be revising that and then I will share that details with you.

Mohit Kumar: Last question pertains to the Zambian Hydropower Plant, so have we already acquired this power plant and how much we have paid and what is the tariff?

Anil Sardana: So this power plant is a 120 MW hydro-based power plant and we have acquired 50% of the equity and balance is with Zesco which is the electricity company of Zambia. The PPA of this project is that with Zesco and this is a cost plus basis project for which the tariff is already announced by the regulatory commission of Zambia and the project is expected to start getting commissioned in the last quarter of this financial year.

Mohit Kumar: And what would be the likely tariff?

Anil Sardana: The tariff is upwards of 8 cents.

Moderator: Thank you. The next question is from the line of Murtuza Arsiwala from Kotak Securities. Please go head.

Murtuza Arsiwala: Just two questions, one is on the standalone, if I look at the standalone business you have talked about that regulated equity which has gone up almost like 12% compared to the same quarter last year, however it does not seem to reflect in the PAT, I mean we do not see that kind of growth in the PAT if you could help reconcile that and the second piece is on Mundra UMPP itself, so what I see just a simple math around the revenue and the EBITDA, the number that we get is a 9% growth in Tariff and a 3% decline in cost of production. So the delta in terms of the EBITDA per unit that you are getting is pretty high, almost 100%. So could you help reconcile again the 9% and the 3% I would have thought that the declining cost would also mean declining tariff. So is it a lead lag like someone had asked before, if could help reconcile the differential movement in the tariff and the cost of generation?

Ramesh Subramanyam: So on your first question, there are some one off impact in this. I think we have already disclosed in that certain coal investment we are taking provisions and also last year there was dividend income which was lower this year. These two factor is what is taking away the increase in regulated equity we just talked about. So on Mundra, your question was, can you repeat that?

Murtuza Arsiwala: The tariff is increasing by almost about 9%, the cost declining by 3%, there is a large spread increase in the EBITDA. So is it a lead lag or should this be taken as the numbers, assuming that coal prices do not move much, so would this be sort of a run rate that one would be looking at?

Anil Sardana: So that is essentially because we have taken, there has been a settlement on some billing related issues with a procurer, so that is a over the last few years we have been billing in a certain way and there were some issues which has got sorted out and that is reflected in the EBITDA today.

Murtuza Arsiwala: So when I look at the EBITDA today which seems like around 60 paisa per unit and that is without the compensation. Is that a run rate that should likely hold even if the compensatory tariff does not come through?

Ramesh Subramanyam: Yes, if we remove that yes.

Moderator: Thank you. The next question is from the line of Charanjit Singh from Axis Capital. Please go ahead.

Anujay: This is Anujay from Axis Capital. Two questions sir. The first one on the regulatory asset for Mumbai and Delhi distribution businesses, so if we look at Mumbai regulatory business the regulatory assets are still flat Q-on-Q and just wanted an update as to how we should look ahead for Delhi regulatory assets?

Ramesh Subramanyam: So yes compared to last year it was flat for Delhi. What was your other question?

- Anujay:** For the Delhi business we are in the process of public hearing for the tariff hike?
- Anil Sardana:** Yes. In fact, the public hearing is over. Now the regulator has to announce the tariff.
- Anujay:** So how much tariff have we asked for?
- Anil Sardana:** Those details are there in the website. I do not exactly know how much is the details.
- Ramesh Subramanyam:** We can give you separately
- Anujay:** The other question was on the Mumbai regulatory assets, so they seems to be flat Q-on-Q whereas we would have received, we would have moved to the new MYT petitions, we would have started billing on the new MYT tariffs also.
- Ramesh Subramanyam:** Compared to last year it is the recovery fee, there is an off take. The recovery on generation is high, so therefore there is a plus on generation side, so in the distribution we are lagging behind. Net result is what you see there.
- Anujay:** So the other question was on consolidated debt numbers that we have shared. So on a quarter-on-quarter basis the debt has increased by about 850 crores. What would be that be for?
- Ramesh Subramanyam:** These are essentially for our overseas investment, ongoing projects that are going on. That I think is the main thing. Other than that I do not think there is any major increase.
- Moderator:** Thank you. The next question is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.
- Abhishek Puri:** Firstly on this CGPL Mundra, your losses have come down to about 85 crores or about 15 paisa per unit. If I extrapolate this, I think the impact is apart from the fuel cost is also due to the depreciation change that we had done last year. If I extrapolate this with the fuel cost remaining at the same level or may be declining, would it be correct to assume that your full year losses will not be about 800-900 crores as last year to about 350-400 crores?
- Ramesh Subramanyam:** We would not like to give you a guidance on this, unfortunately.
- Abhishek Puri:** What I am trying to understand is there any one-off impact here in this quarter or this is the recurring profit or losses at the Mundra level?
- Ramesh Subramanyam:** So if you were in the call we have discussed about the waiver of interest, if you are aware and there is a small amount which is essentially coming out of billing related issue, which we corrected this quarter. So those are if you may, one-off items.
- Abhishek Puri:** So can you quantify that one off items so that we are able to present you know the future ones?

- Ramesh Subramanyam:** Abhishek,, interest waiver will be continued for the rest of the year..
- Abhishek Puri:** But regarding the billing one, if you can quantify that amount?
- Ramesh Subramanyam:** It is about 60 crores in this quarter.
- Abhishek Puri:** My other question will be on, Dagachhu plant has started last quarter and we do not see the performance details in the presentation, is it included in the trading arm where you have seen a substantial increase in revenues?
- Anil Sardana:** Yes, it included in the trading arm but at this stage the production is not much for two reasons, number one - it was under testing, number two - we still have challenges of placing this power through the exchange. There is an ongoing issue in which CERC has referred the matter to MoP and MoP has in turn referred the matter to MEA which is Ministry of External Affairs, because they are still deciding the policy as to how would the foreign power be dealt when it comes to its trading in India.
- Abhishek Puri:** Should you expect any contribution this year from this plant?
- Anil Sardana:** We are all hopeful that there will be a contribution in the trading arm because it is a low cost power and therefore hopefully once they are able to place it.
- Abhishek Puri:** Is there any guarantee that we have given for the pricing, a minimum guarantee for pricing?
- Anil Sardana:** I would not use the word minimum guarantee but there is an expected price which gets traded once it moves from the border and comes into India and when the handoff takes places to Tata Power Trading and to that extent Tata Power Trading is required to place this.
- Abhishek Puri:** My last question would be on the coal mines, if I look at the profitability EBIT right now, which is about 81 crores, we have a loan to service below this, so which is about \$900 million if I am not wrong?
- Ramesh Subramanyam:** Yes, so?
- Abhishek Puri:** The current cash flows are able to meet these loan servicing requirements sir?
- Ramesh Subramanyam:** So if you were to look at if the loan servicing comes into picture it is a clutch of both these coal companies as well as the infrastructure companies, together yes. Together they are able to meet.
- Abhishek Puri:** So what is the debt position and cash position if you can share the last numbers?
- Ramesh Subramanyam:** In the coal SPVs the outstanding debt in Q1 is 900 million.

- Abhishek Puri:** Cash will be?
- Ramesh Subramanyam:** About 50 million.
- Moderator:** Thank you. The next question is from the line of Inderjeet Singh from Macquarie. Please go ahead.
- Inderjeet Singh:** Two questions first is on CGPL, are we looking in option to refinance it through a 525 kind of a route or would want to wait for the court proceedings before we kind up that kind of a restructuring?
- Anil Sardana:** No, we have already approached the banks.
- Inderjeet Singh:** Second question is on our ventures into overseas and we have been doing that in some of the cases fairly small investments relative to our balance sheet size, so if you could just throw some light on what the strategy is all about, is it just kind of de-risking geographical diversification that you are looking at and eventually is there an idea that what kind of capital or what percentage of companies total capital would be deployed outside India?
- Anil Sardana:** We have always maintained that we have not set up any such ground rules to say, either x% or y% has to go to international geography or stay in India. We have said we have created 4 verticals for development which includes SAARC as vertical, Africa is second, Middle East-Turkey as third and South East is fourth vertical and all four teams have been told that whosoever is able to bring an investment proposal after evaluating the risk-reward matrix and qualifies for investment will get the investment benefit. So I think that is where we are. So we have not allocated anything to any of these four verticals.
- Inderjeet Singh:** But because of some of the investments that we have been doing as I said fairly small, so how much delta does it really create to our balance sheet and our profitability in that way, so is not some of those investments fairly subscale or we eventually think that we will have much more larger investments in those similar geographies and it is going to become much bigger for the company or is it going to be similar kind of a piecemeal, opportunistic kind of picking up of projects there?
- Anil Sardana:** I think if we talk from numbers perspective we have been investing 2000 crores at least every year and that trend continues. I can without talking in terms of guidance I can tell you that numbers would not be different for this year also.
- Moderator:** Thank you. The next question is from the line of Shakar K from Edelweiss. Please go ahead.

- Shakar K:** Broadly my question was on two fronts; one is on the coal mine stake sale that we initiated close to two years back, where are we and why is it stuck up and any color on going forward on that first?
- Anil Sardana:** Well, the status is not different than what I had mentioned before that we are still waiting for the CPs to be addressed and primarily considering the present status of coal prices, the lenders are not very comfortable in terms of relenting on the split that we have sought on the infrastructure side to be aligned to each of the two companies. So we will have to wait. I think we are working with them. We are hopeful because there is progress but the progress is not that fast.
- Shakar K:** But does the deal value still hold what you originally signed up for and or even that does not now, or you will have to move back?
- Anil Sardana:** The deal value still holds.
- Shakar K:** Is there any kind of time period for this, either...?
- Anil Sardana:** Time period is whenever we are able to complete and conclude CP then the process sets in.
- Shakar K:** So without impacting either the deal value or the other...?
- Anil Sardana:** As of now there is no such change that I can share with you.
- Shakar K:** Secondly, looking at quite a bit of time drawn out for the entire resolutions for some of the issues on the ground with respect to the power sector, what is your take in the sense that how is it going to get panned out either from a time perspective or in terms of some of the initiatives that we have been long waiting for?
- Anil Sardana:** Well, if you are alluding to Tata Power then we are only waiting for settlement of Mundra issues. As far as other sectoral issues are concerned I think it is a long list of issues that the other people have been talking about including stranded assets, including gas issues, transmission issues, distribution reforms and I think it could take the whole evening for us to address some of those.
- Shakar K:** Even if you can confine only to Tata Power in that sense. Like even for the compensatory tariff stuff it has been quite drawn out in that sense. So even from either the time duration or in terms of what should we expect and how soon the resolution do you think is there or in whatever fashion or form types?
- Anil Sardana:** I will only maintain that since the process is sub-judice, you and me cannot conjecture and guess any time frame. The process of litigation can take its sweet time in Indian context. So we have to only wait and see and you have seen in the APTEL itself, we have spent time with two

benches, in the first time the Chairman of the APTEL superannuated and the second time one of the member superannuated and now we are waiting for one member to be nominated and that since it has been nominated only now, one has to wait and this is a process we are all familiar in India we have to wait for the legal process to conclude.

Shakar K: Lastly just a clarification to one of the earlier replies that you gave, so currently without that billing related adjustment that you have entered with respect to the customers with CGPL, this year's quarterly loss would have been something like 144 crores, is that the right way to look at it?

Ramesh Subramanyam: Can you repeat that?

Anil Sardana: What he meant was the 60 odd crores if you have not got then the loss would have been bad. But I would put it some other way, out of 60 crores there will be some portion which is for every quarter now because what we have got this 60 crores is an accumulation of legitimate tariff adjustment that has been made, so a small portion will now onwards will be there in every quarter.

Shakar K: So something like above 10 crores or 120 crores would have been some kind of a normalized loss for the corporate.

Anil Sardana: It is very fair for us to say.

Shakar K: As compared to around close to a year back when we used to clock close to 300 crores, the entire difference or the majority of the difference you will attribute largely to the fuel and partially to the depreciation effect?

Ramesh Subramanyam: And also remember that apart from fuel, shipping prices has also gone down.

Moderator: Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Recently you got tariff order in Mumbai, so how do you see your tariff vis-à-vis your competitors and are you seeing reverse migration happening especially for the high-end consumer?

Anil Sardana: It is a fact that the tariff order has created this migration opportunity for customers, however, one has to also see that we have filed a review petition because there were some apparent errors that got cast into the tariff and we have to wait for that to get sort of reviewed and once it gets reviewed then we can talk about this issue and those apparent errors are errors on record. So therefore once that gets corrected perhaps the situation will change.

- Mohit Kumar:** For your Rithala you have mentioned in those accounts that 2.2 billion of something worth of cost has not been recognized. What is the impact during the quarter?
- Anil Sardana:** What is this 2.2 billion?
- Mohit Kumar:** 2.2 billion is the impact which you mentioned in your notes to account regarding to Rithala power plant where the DERC has not approved the power purchase cost.
- Anil Sardana:** So at this stage, Rithala power plant which was set up by us is with the regulator to decide the matter and the legal advice that we have is that this is expected to be announced soon by the regulators. So we have to wait for that but this note shows as to what amount is outstanding that has not got adjusted by the regulator yet.
- Mohit Kumar:** So what is the impact of this profit and loss account for this quarter?
- Anil Sardana:** I do not have it readily, we can give you a little later.
- Moderator:** Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.
- Rakesh Vyas:** Just picking up from Mohit's question, the Mumbai license area sales volume has declined by 5%, so is this one of the reason for this reverse migration, demand itself is coming down if you can clarify that?
- Anil Sardana:** So one is there is an overall reduction in demand because of the weather and of course there has been also reverse migration, so both constraints are there.
- Rakesh Vyas:** Second sir we are purchasing almost 500 MUs so it seems in Mumbai, can you just clarify as to from outside what is the tenure of the contract, what is the mechanism and then subsequent to that if you can just clarify as well, in the Ideal Energy petition, a method to replace that particular purchase of power?
- Anil Sardana:** Presently what we are purchasing in two ways – one is through the exchange because the exchange prices are low and other is through the bilateral which ends in October and almost the cost is about Rs. 3.13 or Rs. 3.53 and some portion out of this 500 MUs we will be tying up on a long term in the domestic plant.
- Rakesh Vyas:** The second question relates to the coal mines. The production seems to have declined, so is this a deliberate strategy given the pricing environment that production this year could be lower or this was just one-off?

- Anil Sardana:** So we got two mines right, so generally the mines where the higher CV coals are there those are not dropped. Lower CV coals generally gets affected when the price is strong. So, what we are saying is basically that.
- Rakesh Vyas:** So effectively this year production given the current scenario could be lower than what is was last year. Fair to assume that.
- Anil Sardana:** As of now the trend is like that but we will have to see how it works.
- Rakesh Vyas:** My last question pertains to a news article that related to Delhi that DERC is asking us to terminate some of the costly PPAs. Can you clarify that because some of the PPA that are highlighted there are more than 25 years old which I do not think there would be any significant fixed cost. So if you can just...?
- Anil Sardana:** Rakesh, I think it is the other way round. We have raised this issue about a year, year and half back saying that there are some plants where the cost is way too high despite the fact that these are old assets and particularly which are contiguous to Delhi or in Delhi. There the landed cost of coal has transported as also the cost of retrofitting that has been done by the plants and in order to run those plants is pretty high. Now what happens is since the million units generated by them or the power plant load factors generated by those plants is lower therefore the apportioned capital cost even if it is low turns out to be higher on the annuity basis or per unit basis. So it has been constant input from our side to Delhi government, central government and also the Delhi regulators, that some of those plants therefore need to be taken off the long term PPAs and once that is done we will be able to therefore have the benefit of that passed on to customers. So Delhi regulator when pitching that on our behalf with Delhi Government as also Central Government because many of those plants belong to Delhi Government and many of those plants belong to Central Government which we have pointed out.
- Rakesh Vyas:** But beyond this 25 years are we still under the long term PPA or this is just a understanding through which the credit mechanism...?
- Anil Sardana:** There is nothing called understanding. These are as a part of the PPA.
- Rakesh Vyas:** This only includes the older plants and not the new plants like the Aravali, etc.
- Anil Sardana:** There are some new plants also in it.
- Rakesh Vyas:** How do we propose to replace the purchase of power from there?
- Anil Sardana:** So today there are plants which are available on long term basis and on cheaper prices and also of course you can buy power from the exchange itself.

- Rakesh Vyas:** I am just trying to understand this because we continue to hear that there could be transmission constraint North and large number of projects that currently do not have PPAs towards that?
- Anil Sardana:** Take for example we have been making that point to say that Delhi Government has two gas plants, one is called Bawana gas plant, and other is called IP gas plant. We have been saying you should close down IP gas plants and transfer that part to Bawana gas plant so that Bawana being latest machines will have higher efficiency and therefore since the fixed cost is anywhere some we can perhaps run that at much cheaper prices. These are just examples, so I am saying similarly there are plants in Delhi which you are without naming them belong to NTPC or which belong to Delhi generation company and those burn coal today and the landed cost at par is more than Rs. 6 and this should be too steep?
- Rakesh Vyas:** Yes and can you just give some more clarity on how do you see the regulatory asset in Delhi getting liquidated over time because it is not growing but it is not coming off as well.
- Anil Sardana:** Yes you are right. This is an aspect which not only us APTEL as well as Supreme court have dealt with, they have clearly directed DERC to have a definite plan of liquidation of these regulatory assets and as per that the present plan shows that our regulatory asset should get liquidated by 2021. Now it is for you and me to see whether they will stick to that plan.
- Rakesh Vyas:** Because the 8% surcharge in that and then I think some increases beyond that was only to cover the carrying cost it seems, that does not cover the liquidate.
- Anil Sardana:** The 8% surcharge was supposed to liquidate...
- Rakesh Vyas:** Exactly but I am saying today it is just managing the carrying cost.
- Anil Sardana:** So you got it very well. But the APTEL has stated that you much have quarterly fuel surcharge adjusted so that this 8% will be available to liquidate the regulatory assets but in hindsight when you look at some of the past quarters you will find that this 8% has gone towards mitigating the fuel price changes rather than liquidating the regulatory assets. So you got that point, right?
- Moderator:** Thank you. If you like to add closing comments before we conclude.
- Anil Sardana:** Once again thanks to all the investors, appreciate your joining this call and hope you have got all the answers just in case you still have any more queries, do pass it to Shubham and we will be happy to answer those for you. Thank you again and look forward to seeing you for Q2FY16 results. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Tata Power that concludes this conference call. Thank you for joining us and you may now disconnect your lines.