



“Tata Power Q2-FY14 Earnings Conference Call”

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Moderator Ladies and gentlemen, good day and welcome to Q2FY14 Earnings Conference Call of Tata Power. We have with us on the call today Mr. Anil Sardana – Managing Director, Mr. S Ramakrishnan – Executive Director Finance, and Mr. S Padmanabhan – Executive Director, Operations. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anil Sardana. Thank you and over to you sir.

Tata Power Thank you Melissa. Good afternoon friends from the analyst community. Welcome to the Q2 FY14 Analyst Call. We will be pleased to respond to all your questions and just in case you do not get the entire data in details, feel free to write to us so that we can respond to the balance part of your query. As far as this quarter is concerned we would once again say that it is sequel to the past quarters our operating performance again showed that there was a very healthy growth. There has been challenge with regard to two aspects. One is the ongoing Mundra issue where we are hopeful that CERC norm which has a reserved the final judgment and come out with solution in line with the compensated direct border that they had issued earlier. And the second aspect was the FOREX losses that now just Tata Power but many of our other companies including because of the weakening of Indonesian Rupee had FOREX losses registered in Indonesia and also in India. So friends that are the brief on the growth side we continue to pursue with our existing and known investments. At this stage we are looking at our blue print for future expansion and this is the basis of the final take on Mundra CERC Audit. As also the outlook of the foreign exchange that we will finally decide on our growth perspective of future years. So that is all I have to say in the opening remarks and welcome to respond to your questions. Please go ahead.

Moderator Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Participants are requested to use handsets while asking a question. First question is from the line of Venu Gopal from Barclays. Please go ahead.

Venu Gopal Sir just very small question firstly. FOREX loss, this is primarily attributable to the coal mine related, foreign currency loans that you have on the SPVs, right? What exactly is this FOREX loss?

Tata Power No, no are you talking particularly with regard to my comment on the Indonesian site?

Venu Gopal Yeah.

Tata Power That is related to the VAT obligation that the company has which is to be paid in the Indonesian Rupee and the advantage that the company gets from the business is in dollars in terms of the equivalent royalty aspects, which we were pitching against each other. Now on a

quarterly basis, the two are sort of adjusted for the FOREX variation and that is exactly what you see is the gap and pretty significant gap.

Venu Gopal Okay got it. Secondly, just a very small question on Maithon, what is this amount of insurance claim I think as is in the presentation slides?

Tata Power That is basically because of the generator transformer failure for which the loss of profit insurance there is a claim of about Rs. 30 crores that has been made.

Venu Gopal And that is booked in this quarter, right?

Tata Power That is right.

Venu Gopal Sir my question, if you could just give us a data on coal, which is the production sales as well as the cost of production and realization and if you could also give depreciation at the coal mine level.

Tata Power For Q2 FY14 coal mined is 21.7 million tons; coal sold is 19 million tons, which brings a figure for H1 to almost 40. The revenue per ton is 62 for Q2 and the cost of production is 37.7.

Venu Gopal And what is in the depreciation number, that is the only thing.

Tata Power Depreciation number is 152 million for 100%.

Moderator Next question is from the line of Harish Bihani from CIMB. Please go ahead.

Harish Bihani On Mundra UMPP if you look at the numbers, in first quarter our operating profit was 124 crores and in the second quarter our operating profit is Rs. 228 crores. We were just trying to understand the variance even in the last quarter could not reach a conclusion. So can you please help us? Basically the operating profit looks lower in the first quarter and it looks okay in the second quarter. So what was the issue in the first quarter which is not there in second quarter?

Tata Power I think something you should also leave it to us as operators to facilitate. But anyway, I think one part is of course the coal rate which makes a difference. The second aspect is in terms of the gap between the availability and the PLF, which makes another difference.

Harish Bihani So is it to do with higher O&M cost?

Tata Power No, no, I explained you that why we recover full fixed cost because of higher availability. The PLF which is lower to that extent it helps us because you are not going negative on each of such units that you avoid generating. So the dispatches were lower because of the grid frequency being higher and therefore that gives you that much advantage. Your fixed cost virtually gets spread over lesser number of units.

- Rajesh Kumar Ravi** Okay, so on a sequential basis even your per ton cost has also come down from around Rs. 3700 if I work backward, from Rs. 3700 per ton it has come down to Rs. 3340 odd. So cost at least, because utilization has remained flatish, so was it in Q1 that you had some exceptional expenses in the southern plant which has now come down?
- Moderator** Next question is from the line of Venkatesh B from Citi. Please go ahead.
- Venkatesh B** The first question is sir usually this Indonesian VAT receivable exchange gain or loss you mention it as an amount in the exceptional item. For example in the first quarter of last year and the second quarter of last year this number was given, VAT receivable exchange gain, first quarter of last year was Rs. 57 crores loss, second quarter of last year was Rs. 21.6 crores loss. So in this quarter can you share that amount because it is not been given in the notes to accounts.
- Tata Power** You are talking about the VAT variation. 134.
- Venkatesh B** And was there any amount in the first quarter also?
- Tata Power** The figure is \$120 million and that is 100% for the quarter.
- Venkatesh B** So why are you not giving me this figure in rupee terms I am wondering?
- Tata Power** Why do you need it in rupee terms?
- Venkatesh B** To try and figure our sir. Basically what we are trying to show is we remove this -
- Tata Power** I will tell you the accounts of the coal companies are maintaining dollars so the convert from Indonesian Rupee to dollar and maintain it in dollar. Then convert it in dollar into rupee. We do not directly convert from Indonesian Rupee to Indian Rupee. That whole issue will look somewhat different. Because the books of accounts of the coal companies are maintained in dollars, dollar is the currency through which things are moving.
- Venkatesh B** Okay. And sir was there any exchange loss in Mundra?
- Tata Power** 40 crores.
- Venkatesh B** Sir the second question is on this whole tariff process, because I think on November 1st there was a meeting whose record of proceedings have actually been put up on the website of CERC, where it suggests that actually Haryana has actually filed a case suggesting the locus standing of CERC itself in giving a compensatory hike with the Aptel. So this is what that says and secondly it also says that some people have also argued that now that coal prices have fallen why should a compensatory tariff hike be given and I think there is a consumer agency which is also asking about a few more issues like should not the hardship be equitably distributed between the company and the consumer. Now, I am not trying to argue any of

these things, I am just wondering because it seems to us that this case could drag on and on and you have read press statements suggesting that post March 2014 you are not prepared to continue to take on the losses. So if you could just explain your thought process regarding the same that what are you planning to do if even after March 2014 actually you do not see the light of the day in terms of the final decision on this.

Tata Power

First and foremost Venkatesh let us clarify that none of us have made any statements with regard to our terminal date or a fixed date that we will not be able to carry on or carry forth. We are running the unit as of now all what we can and it is a hardship but at the same time we have not made any such dates to suggest that we will not run after March 2014. The second part about your comment on the minutes on the website, I have nothing else to add except for the fact that there was a hearing yesterday on the basis of which my information is that the commission has now reserved the order and as told any of such participants that if they have anything else to add, they can submit this to CERC in next two weeks time. That is all my information. So the other part that I just want to add as an opinion since you mentioned about the fact that we go on and it will drag or somebody will say something else, the issue with regard to compensatory tariff is already adjudicated and decided. The issue with regard to modality of implementing them is the subject matter presently being discussed. So for us to talk about anything in defiance or difference of opinion on compensated tariff I have nothing else to add except that we will have to wait for commission's final orders.

Venkatesh B

Okay sir. My last question is on Maithon – what exactly happened in the month of July and August because it seems like in these two particular months the plant load factor of the Maithon power plant has come off dramatically but it has bounced back in September. So what exactly happened in July and August?

Tata Power

We had a loss of BHEL-make generator transformer and because of which one of the units was not possible to be operated.

Venkatesh B

Okay. Now, this insurance claim this has been booked in the other income in the consolidated numbers or is it -

Tata Power

Let me check. It is part of the operating income. In NPL it is other income. You are seeing it in terms of the debts that we have sent you norm. It is part of the operating income.

Venkatesh B

Thank you very much sir and hopefully you get this tariff order fast and the whole thing gets resolved. My best wishes.

Tata Power

We even want to get it passed. It has to be in the interest of sector which is what CERC has to look at.

Moderator

Next question is from the line of Vivek Sharma from ICICI Securities. Please go ahead.

- Vivek Sharma** Sir my question is, am I right in saying that due to the FOREX rate variation in the VAT obligations your coal segment has reported a loss in this quarter?
- Tata Power** It is a combination of all factors. One is the prices are low. Two is our recent production has been affected because one of the contractors we are having disputes with him and three is this FOREX variation.
- Vivek Sharma** But sir if you look at on a quarter-on-quarter basis, your spreads between your realization and cost have roughly meant the same, in fact they have improved marginally. So even if your prices are low, your costs have also gone down. So what could be the major reason why your coal segment profitability is in a loss?
- Tata Power** Two things I want to tell you. One is the segment profitability as reported by us, in consolidations we always have to eliminate certain things. What we have done is we have eliminated the turnover that the coal companies and with Tata Power generating unit at the coal level and not at the power level.
- Vivek Sharma** So the profit on the coal side -
- Tata Power** Not just profit, the whole turnover has vanished.
- Vivek Sharma** So the profit has also vanished -
- Tata Power** But it is on the same. It is not that we have done it only this quarter, so if you could do a comparison do not be led by a minor but be led by the variation. Variation is true. The absolute number is affected by the way in which elimination has occurred.
- Vivek Sharma** And sir in your FOREX losses you said 120 million for the whole 100% for the VAT thing, which leads to around a figure of if we convert into rupee terms around 200 crores. What is the balance FOREX loss pertaining to?
- Tata Power** It is there everywhere. It is there in CGPL 40 odd crores; it is there in Tata Power, Rs. 60 crores and Rs. 70 crores. So it is a combination of all the losses. We are only highlighting a big chunk to you. That is that total of 300 and whatever number that is coming in the console.
- Vivek Sharma** Got it. Sir second question, could you throw some light on the operating performance of Mundra, what were the PLFs, PAFs and tariffs and the fuel costs during the quarter?
- Tata Power** I think what we should be keen on is to know that we had 85% availability during the quarter. We dispatched 5000 million units during the quarter so you can calculate that for yourself. Total tariff was 245. Only fuel energy cost is 159.
- Vivek Sharma** And sir on operating basis how has the performance been in terms of heat rates and all, now that I assume the units are almost stabilized what are the heat rates that you are seeing?

- Tata Power** That part at this stage we do not want to talk about all those details. It is very misleading. With a PLF of what was reported to you, the report of the heat rate would be misleading.
- Vivek Sharma** So is it better if you could just clarify on that?
- Tata Power** It will be worse. Whenever the PLF goes down, heat rate worsens.
- Moderator** Next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.
- Sumit Kishore** My first question is on the Bombay distribution business, we have been reading and hearing from Reliance Infrastructure on their claims of reverse migration of high end consumers from Tata Power and also in the potential shift of the low and residential consumer base of almost 7 lakh plus due to Tata Power, what are your comments on this and is there any merit in the arguments?
- Tata Power** See, we have no comments to make except for the fact that if you study the regulatory order you will find that the tariffs in respect of Tata Power for low end consumers has been reduced substantially compared to the other supplier and the tariff for the high end customer has been increased compared to the other supplier and regulators have termed this as migration economics. So we would all wait for the migration economics to settle down at a particular point of equilibrium and then perhaps see as to how it pans out.
- Sumit Kishore** Okay, so Reliance Infra's claim that 20% of the high end connected load that had migrated to Tata Power had shifted back to them in the last few months, is that right?
- Tata Power** I do not have those numbers to confirm yet but I would say is that is the design of MERC then it has to settle at that. Where as I said this is not by any merit or virtues of what actually is this sheer economics of these operators, it is by virtue of what I have termed as migration economics of MERC. So MERC wishes it to happen like that then it should take place even if it does not happen in the last quarter.
- Sumit Kishore** My second question is on tele-distribution business, could you please share what is the regulatory asset that was at the end of FY13 and are you seeing a further increase in the regulatory asset as of September quarter end and what are the numbers?
- Tata Power** It is marginally lower from the last quarter by 130 crores from what was originally and what was 4712 has become 4675.
- Sumit Kishore** Okay, so these are numbers at the end of June quarter and September quarter respectively.
- Tata Power** That is right. The lower one for a change is the September quarter.
- Sumit Kishore** So is that a sustainable trend now we are going to see in terms of recovery of the regulatory assets?

- Tata Power** It all depends on if the fuel rates do not go up due to which power a tariff doesn't change then the answer is yes, but that is no answer. There are two aspects that you need to understand. One is that regulator has worked out a mechanism that every quarter the fuel surcharge would be announced. If that happens akin to what the fuel costs are either ways, either more or less then in that case it is a sustainable trend but if that is given up and that does not happen in line with the actual variation in the bulk cost, then to that extent this will get impacted once again.
- Sumit Kishore** Sure, so you are saying that if the FAC is implemented on whatever monthly or bimonthly basis then there should be a sustainable trend?
- Tata Power** It is quarterly basis. If it is implemented on a quarterly basis then this arrangement is sustainable.
- Sumit Kishore** How much of this Rs. 4675 crores is carrying cost and how much of this is already on your balance sheet?
- Tata Power** See every quarter roughly requires cost if it depends. If we take 12% as cost, so roughly 3% of this amount will be my carrying cost.
- Sumit Kishore** Okay and this entire amount on your NDPL or balance sheet?
- Tata Power** Yeah, it is shown as assets, other current assets. Recoverable from future income.
- Sumit Kishore** Sure. Sir, after this first quarter results, once again going back to Mundra UMPP, you had attributed the increase in loss in the first quarter was higher because of fuel cost under recovery to the tune of around 50 paise per unit, which was also attributed to a rise in heat rate or deterioration in heat rate due to reduced PLF. Now we see that the PLF has reduced further and the heat rates too would have deteriorated, plus we have seen a rupee depreciation and as well the imported coal prices have also come down. So net-net impact still seems to be a deterioration. I fail to understand why second quarter the operating profit and the fuel under recovery should be lesser than the June quarter?
- Tata Power** If the number of investors is less even the under recovery per unit goes up, the total amount can be less. And also the fixed cost gets spread over the smaller number of unit, so therefore that shows an advantage. And under recovery also per unit is pretty much similar or slightly better.
- Sumit Kishore** And finally on the consolidated interest cost, quarter-on-quarter there is a decrease of almost Rs. 100 odd crores, what is the reason?
- Tata Power** For standalone or total?
- Sumit Kishore** On a consolidated basis.

- Tata Power** Out of the Rs. 100 crore reduction, about Rs. 75 crore is because of Tata Power. There is an element of entry tax reversal which was one of the issues that we had taken in the last quarter and the second issue is about Rs. 25 crores is about CGPL, some of the hedge rewinding. So those are the two elements that has reduced it by Rs. 100 crores.
- Sumit Kishore** So this quarter's number is a more sustainable number going forward, maybe.
- Tata Power** These odd things keep happening every quarter. I do not know which one to call sustainable.
- Moderator** Next question is from the line of Girish Nair from BNP Paribas Securities. Please go ahead.
- Girish Nair** Sir my first question is what was the quantum of deferred tax write-back that happened this quarter at the consolidated level?
- Tata Power** About Rs. 72 crores.
- Girish Nair** And second question is what was the amount of revenue that was netted from the coal mine revenue, meaning as intersegment elimination?
- Tata Power** We will answer that. That will take sometime because the actual accountants are finding that.
- Girish Nair** And in terms of Maithon, could you tell us what the plant availability factor was this quarter?
- Tata Power** Maithon plant availability is 80%.
- Girish Nair** Okay. And just want final question, I just wanted to know about your compliance with governance for the Mundra UMPP, are you in compliance or if not then till when do the waivers last and you know would there be any more conditions in terms of bringing in more equity considering that Mundra is making losses?
- Tata Power** At this point of time we can only say that we are still discussing on the waivers and dialog is still on. As regards to the sponsors' additional equity etc, those are ongoing matters but nothing substantial at this moment to report.
- Girish Nair** Okay, but any indications of what is the deadline for waivers because last time it was up till June 2013?
- Tata Power** Waivers for June is over. It will be close on one or two issues. If remaining then it will go on till 2015. See there are one or two issues where there are differences between the two of us, it depends on when this go up, either we give up or they give up.
- Moderator** Next question is from the line of Shankar K from Edelweiss. Please go ahead.

- Shankar K** Just wanted to get a clarification, could you please let us know the absolute rupees in crores, capacity charges received in this quarter and last quarter if possible.
- Tata Power** Which unit?
- Shankar K** CGPL?
- Tata Power** Rs. 632 crores.
- Shankar K** And it has been largely similar to Q1 also?
- Tata Power** Yeah.
- Shankar K** And secondly there was a media article wherein it was stated that the company is planning to explore some fundraising options including sale of stake and all. Just wanted to know where we are on that and what are the options in that sense and will equity dilution more likely or something or that sort?
- Tata Power** Everything is being studied, what is likely and what is not likely, something which we have not reached the decision as yet. We are studying all possible options. You people are experts of the various options and we are studying each one of them.
- Shankar K** And something which has to be done within this financial year or it can happen next year also in the sense that how eminent it is from that perspective.
- Tata Power** We have funds as of today probably till first quarter of next year provided all our consumers pay us on time.
- Shankar K** Okay. And indicatively what is the quantum that we are looking at through the various measures?
- Tata Power** All funds, including debt funds but today we are quite stretched as far as debt is concerned.
- Shankar K** So it is safe enough to assume that at least 50% of this will be equity?
- Tata Power** I have no comment. That is for you to decide what is safe and what is not safe.
- Moderator** Next question is from the line of Abhinav Sharma from HDFC Securities. Please go ahead.
- Abhinav Sharma** Sir what is the reason for this decrease in employee cost on a year-on-year basis? We have mentioned about some reduction in liabilities due to post retirement benefits. Could you explain that sir?

- Tata Power** We did not give the retiral, the discount factor has gone up due to the general interest scenario at this point in time. So the value of retirements has come down.
- Abhinav Sharma** And sir how frequently is this done? Is this done every quarter or every year, this revision?
- Tata Power** It is done once in six months.
- Abhinav Sharma** Okay, and sir my second question is on the Mundra CGPL case, sir is it necessary for all the procurers to agree on the CERC recommendation or what if one of the procurers is not agreeable? Then what are the options available to us and to the other procurers?
- Tata Power** See regulatory process has a process of legal challenge that one can do. That is the process. I may not agree with the regulator order, so there is no question of regulator looking for unanimity or consent, if he is convinced of whatever the case is, he will pass judgment it is for the individuals affected to accept it or moving to the next level where again it may or may not be challenge, may or may not be accepted. So that is the process that we live with the regulatory businesses all the time. We are doing it in Bombay, we are doing it in Maithon.
- Abhinav Sharma** Sir my last question is on our incoming coal SPVs, why has it gone up on a quarter-on-quarter basis?
- Tata Power** See that is a function of purely of cash flow. As and when cash is available at the coal company's level, they declare dividend. So there is not necessarily a direct connect between profit and dividends. Dividend payment needs cash apart from profits. So what happens is in their working capital cycle and their statutory payments like income tax and others, their cash flows change from quarter to quarter and when they have free cash available and there are profits in the books which is always there, they declare dividend. So you cannot really read anything other than the fact that cash is available because the profitability is separately imported to you so there is a disconnect between the two.
- Abhinav Sharma** So what is the dividend sir?
- Tata Power** It will be 24 million in Q2. The right dividend is not even declared.
- Moderator** Next question is from the line of Abhishek Puri from Deutsche Equities. Please go ahead.
- Abhishek Puri** Couple of questions. Sir firstly, just one small clarification on the Mundra UMPP, you have given 5000 units have been sold in the current quarter at 245 tariff. Is that correct?
- Tata Power** That is correct.
- Abhishek Puri** For CGPL you gave us that 5000 units have been sold in the current quarter, million units, and 245 was the tariff. So when I multiply that I am getting a number Rs. 1225 crores as the revenues, whereas I think in your presentation the revenue has been given as Rs. 1390 crores.

Management What you are trying to do is you are trying to interpret the total revenue divided by the number of units sold. In actual life it does not work that way. In actual life the fixed cost sum comes by virtue of availability factor. Since our availability was 85% there will be a particular amount that will come by virtue of the availability factor which in this case is about Rs. 777 crores. And then the units that it generates, not what we sell will be a criteria for our cost to be built if you were to check the cost and if you were to check the recovery of revenue then based on sales it will be the variable cost, which in this case is about Rs. 632 crores. That is the breakup.

Abhishek Puri So Rs. 632 crores is the fuel cost.

Management Yeah, so do not divide it because typically if we generate less number of units then the spread as I kept saying before gets you higher advantage. Rs. 777 crores is the variable part and the Rs. 632 crores is the capacity part.

Abhishek Puri Sir my other question is on the capital employed in the coal business is up from last year to this year by almost from Rs. 73 billion has gone to Rs. 99 million. What has been the reason for increase in this capital employed? Is it purely on CAPEX?

Tata Power I think it will be on CAPEX including the power project. We will mail you the details because we need to check fixed asset and current assets.

Abhishek Puri Sure sir. And my last question is just on the CAPEX plant, if I remember correctly FY14 you mentioned Rs. 900 crores CAPEX and FY15 about Rs. 1350, does that stand right now?

Tata Power We have only standalone one. We can give you of individual company.

Abhishek Puri Just the broader names if you can give me for standalone?

Tata Power About Rs. 1500 crores.

Abhishek Puri This is for FY14?

Tata Power That is correct.

Abhishek Puri And 2015 also?

Tata Power FY15 we have not worked out yet.

Abhishek Puri And further CAPEX in any of the other subsidiaries? Is it really required right now or no?

Tata Power Nothing major is happening in any of the subsidiaries. Only project we are doing is Kalinganagar and very small wind project.



*Tata Powers
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- Moderator** Next question is from the line of Sachin Trivedi from UTI Mutual Fund. Please go ahead.
- Sachin Trivedi** Just a clarification – you said coal production cost this quarter was \$37.7, right? Why has it gone down compared to last quarter?
- Tata Power** Yeah. There are two specific reasons, one of course is our ongoing effort to reduce the cost which we have been reporting from previous 2 or 3 quarters, the second is the stripping ratio. The stripping ratio at a particular pit where we are mining right is favorable and that also helps the reduction of cost and that has been one of the prime reasons this quarter.
- Sachin Trivedi** Okay, so may be because the realization is low we have -
- Tata Power** That is correct.
- Sachin Trivedi** Okay, so going forward if the realization remain in this range should we assume that the strip ratio will be closer to what we have reported in the current quarter or the Q3?
- Tata Power** See strip ratio is also a function of how much open access you have to the mine pits, but if realization continues to be at lower levels to assume that the pits will continue to have similar pits available to us is not correct. So after 2-3 quarters those pits would have been extracted and therefore you will have to move to pits where you either will have to have a higher overburden or you may have to actually dig up new pit. So therefore the strip ratio is a function of how much pits we already have available with us and how much low cost mining we can do.
- Moderator** Thank you. That was our last question. I hand the conference over to Mr. Anil Sardana for his closing comments.
- Tata Power** Thank you to all the friends from the investors' side. We have answered most of your questions but just in case some of the information has not fetched you right or you still have some more questions to ask, do mail to our colleague and we will ensure that you get your responses. And we look forward to seeing you during the next quarter. Thank you so much once again and good day.
- Moderator** Thank you very much sir. Ladies and gentlemen on behalf of Tata Power that concludes this conference. Thank you for joining us and you may now disconnect your line.