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“Tata Power Q2 FY15 Earnings Conference Call”

November 13, 2014



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**MANAGEMENT: MR. ANIL SARDANA – MANAGING DIRECTOR & CEO,
TATA POWER
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POWER
MR. RAMESH SUBRAMANYAM – CFO, TATA POWER**

- Moderator** Ladies and gentlemen, good day and welcome to the Tata Power Q2 FY15 Earnings Conference Call. We have with us today from Tata Power, Mr. Anil Sardana – Managing Director and CEO, Mr. Ashok Sethi – Executive Director and COO, and Mr. Ramesh Subramanyam – CFO. As a reminder, all participants’ 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 this conference, please signal an operator by pressing ‘*’ and 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.
- Anil Sardana:** Thank you and good evening to all our analyst friends. While we talk about the Q2 and H1 results for FY15. I want to start by saying that the power segment of the company continues to give good results, backed by very good operational performance. The challenges on the coal segment, the coal realization as also Mundra continues to be there and we will continue to look forward to the solutions coming soon. As far as the other subsidy businesses are concerned TPDDL and other subsidiary companies continue to do well on the operational side. We have challenges on the solar side. We will have more to respond as we get your questions but I thought generally give you an outlook of how we have done in the Q2 and I look forward to all your question. Thank you.
- Moderator** Thank you very much. We will now begin the question and answer session. We have the first question from the line of Amit Sinha from Macquarie. Please go ahead.
- Inderjeet Bhatia:** This is Inderjeet from Macquarie. My question is on this recent development in the Supreme Court if you could just help us explain what exactly has happened in the Supreme Court with the asking for a stay on APTEL hearing and how does it impact any potential timelines for our verdict to come out. Thank you.
- Anil Sardana:** See there are in the process of the entire adjudication when Haryana questioned the APTEL interim order of giving us the compensatory tariff and when the Supreme Court reverted back the matter to APTEL to expeditiously hear this out. We have noticed one key aspect in the Supreme Court written order where it said that APTEL is directed here by to do expeditious hearing, however not get influenced by the CERC order. Having taken a legal view on that, the thought emerged that while the favorable order was given by CERC it had stated clearly that the change of law and force majeure were not considered by them but they had actually adjudicated under 79 which is the powers of the commission and given us that order. So based on the legal advice we therefore filed with APTEL a matter to suggest that the change of law and force majeure rights for us should also be restored and they should be heard together along with the other part of the petition. To which APTEL said that since it is time barred, it is not willing to give us concession on the time side. So seeing that point of view we went to Supreme Court where now in the one of the matters related to Adani case in a similar issue the Supreme Court has admitted and given a stay to APTEL proceedings as they want to hear our point of

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view on the matter related to change of law and force majeure. Your next part of the question was how does it impact the time lines, etc. I think the important point that needs to be understood that considering the legal advice it is important that while certainly we stand by the fact that CERC certainly has power to adjudicate under 79 and it had given us a favorable order but we want to also restore our options with regard to change of law force majeure knowing very well clearly that it was a force majeure that was served on us and the fact that it was a change of law that happened concurrently in the coal exporting countries. I think that is the clarity to your question. I hope it answers your question.

Inderjeet Bhatia: So the matter in Supreme Court is on a limited point of whether it is time barred or not or whether it would also look at the force majeure and change of law as a thing, so it has to go back after that?

Anil Sardana: Sorry it is not on time barred, it is on the issue of change of law and force majeure.

Inderjeet Bhatia: Okay, so if Supreme Court gives a verdict in our favor which says that force majeure and all those other change of law is applicable, does that effectively mean that we have actually succeeded in this case and then the APTEL order become infructuous because the Supreme Court has effectively given a judgment on that?

Anil Sardana: First of all you need to understand that there is no APTEL order so to saying that APTEL order becomes infructuous is incorrect.

Inderjeet Bhatia: But we do not need to go back to APTEL after that? That is my question.

Anil Sardana: Exactly, so if the Supreme Court restores our right to also pursue our petition related to this case falling under change of law and force majeure then we go back to APTEL and when we discuss or when we actually give our arguments in APTEL then the APTEL has to openly hear arguments related to all three matters, that means the powers of CERC under 79 as also our rights under change of law and force majeure that is what it means.

Inderjeet Bhatia: Okay sir, thanks a lot and best of luck.

Moderator Thank you. We have the next question from the line of Venugopal Garre from Barclays. Please go ahead.

Venugopal Garre: Sir I just wanted to understand on the coal blocks per say, how do we see things panning out for us, since Maithon already does not have a coal issue per say and Mundra is an imported coal based plant. Do we see ourselves bidding in the coal auction process or that is something which we are not looking at?

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- Anil Sardana:** Venu it is not appropriate of me to make any guidance in terms of whether we will bid or not bid for the coal blocks. It is up to the board of Tata Power to take a call. And we will wait for the process to pan out in terms of RFQ and RFP and then we will take a call on this part.
- Venugopal Garre:** Sure. My second question again is related more with respect to the technical issues that we have been facing with quite a bit of units, specially two units of Mundra in the previous quarter, some issues in Trombay earlier also. Is it something which is a normal course thing or are there any issues which probably could lead to further maintenance shut downs or things like that in the future or is it just something we should generally ignore.
- Anil Sardana:** Venu if you convert all these into commercial perspective it is important to understand that availability is our key criteria to meet to recover our fixed cost. As per as Mundra is concerned we are well on our course to meet our fixed cost for full fixed cost recovery, sorry we are well on our way to meet availability guarantee for fixed cost recovery. As far as Maithon is concerned we are much above the statutory availability requirement as of now. But yes we have faced some problems with the design related to particular equipment of a particular manufacturer. We are talking to them, they have been a reputed manufacturer, but off late their equipment's have been failing at many power stations and many substations. It is a matter of concern for this country because they are one of the largest supplier of this equipment across India. And there have been failures. Let's hope that they will quickly look at all those issues and tide over them. As far as we are concerned we have decided to import some of the equipment's and replace them so that we do not get into those issues until we get satisfactory answer from this Indian manufacturer.
- Venugopal Garre:** Okay, I think it is very clear sir. Just if I may ask a last question. Tata Power solar what was the reason for the losses in this quarter?
- Anil Sardana:** The prime reason has been one of the orders which is related to the Jawaharlal Nehru mission. In the order, there has been a FOREX exposure and there has not been equal compensation on the revenue side and that caused the dip in the margins. The other part is that within the various products that they sell the ones with the higher margins had lower sales and the one with the lower margins had higher sales and therefore it has all come in the particular quarter as a negative outlook.
- Venugopal Garre:** Okay. Thank you so much sir.
- Moderator** Thank you. We have the next question from the line of Venkatesh B from Citigroup. Please go ahead.
- Venkatesh B:** Firstly I would like to thank the investor relations team and Tata Power for the detailed information given in the presentation which eliminates I guess 99% of the book keeping

questions that we ask, so that's for that but I still had one bookkeeping question in terms of what exactly was the depreciation in the coal mines in the current quarter.

Anil Sardana: \$48 million.

Venkatesh B: So that is the total 100% right sir? 30% of that will be our part.

Anil Sardana: Yes, you are right, 30% of that will be ours.

Venkatesh B: 30% of 48 million?

Anil Sardana: Yes.

Venkatesh B: Okay sir. Now the second question is, in the first quarter Maithon had a problem in terms that the numbers were not that good and you had explained that because we moved to the new CERC norms and it is no longer an availability, so the numbers had become weak. Now I see that in the second quarter Maithon numbers seem to be very strong. So profits are almost 28 crores.

Anil Sardana: Can you clarify Venkatesh? This part is not very clear. What did you say in Maithon the availability numbers were damn good in quarter one so I do not know what you are saying.

Venkatesh B: No. I said in first quarter Maithon profits declined on a Y-o-Y basis, it went from 33 crores last year to say may be 19 crores this year's first quarter. So you had explained that, that is because we have moved to the new CERC norms where availability based incentives are no longer there and that has impacted the numbers. Now, why our numbers in the second quarter of the year so good at 28 crores has gone up from 12 crores to 28 crores. Is there any exception?

Anil Sardana: One reason is the merchant power which it sells on the 150 megawatt that has fetched a higher realization.

Venkatesh B: Okay.

Anil Sardana: And in the previous year in the same quarter there was an insurance claim which is the difference.

Venkatesh B: Okay, sir that is all from me. Thank you very much

Moderator Thank you. We have the next question from the line of Jay Kakkad from Standard Chartered. Please go ahead.

Jay Kakkad: Sir my question relates to this Arutmin coal mines stake sale. Have you received the first tranche of payment for this sir?

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Anil Sardana: No, we are yet to receive the first tranche and as we have said in the past that there are some CP to be completed, there are some assets which need to be restructured before we complete the transaction that CP process is still on and only when that is complete the money will come in.

Jay Kakkad: And last question from my side, relates to your strategy going forward since the coal blocks are getting auctioned, so what is your strategy on the domestic front and the overseas front?

Anil Sardana: We have already talked about the fact that this is a matter as it pans out and we get to see the RFB and the board of Tata Power will take a call on that. As far as the international blocks are concerned we have always maintained that we are continuously looking at the opportunities to secure fuel, and as a part of the strategy approved by the board we have been mandated to cover up all our future growth projects which will be based on imported coal for us to look at the options of tying it up and securing the fuel supplies.

Jay Kakkad: Okay. On the overseas front just wanted to know about your progress in the Vietnam side sir.

Anil Sardana: The Vietnam project is moving as per the schedule that they have given us. Recently as you know the president of Vietnam was in Delhi and we had very good meetings with, sorry the Prime minister was in Delhi and we had very good meetings with the officials and basis of which the feasibility report which is the concept there which follows after signing of the agreements where they have approved all the cost and the concept for us to go ahead. That is happening at this stage as we are negotiating the number two. The region in which this project is located, the work with regard to the acquisition of the land is happening and in parallel we are doing studies on the Marine side which is where to establish the port and to get the coal jetty's, etc., made so all those parallel works are happening.

Jay Kakkad: So when do we expect to financially close this project approximate timeline?

Anil Sardana: The project schedule itself expects us to do that in 2016-17.

Moderator Thank you. We have the next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Just one question on your consolidated notes to account point number 9. There are certain receivables on account of VAT and vehicle fuel tax, which are something we are not providing for and at the same time it says there are certain contingent liabilities, my question is that what are these and would these also be adjusted before the closer of the Arutmin transactions.

Anil Sardana: Pulkit this is an ongoing note. I would urge you to have a look at it, it has been there for years together. It has nothing to do with Arutmin transaction per say. This is a sectorial issue in Indonesia where for some years the issue of royalty which was changed in the case of CCOW and the issue of payment of VAT were co-linked by the industry players. On one side the

incremental royalty was not paid on the other side the VAT was there. I think those issues are being contested legally today and when would the outcome come or when would the settlement happen we cannot make any guess in this. Because as I said this relates to all the players related to commodity in Indonesia.

Ramesh Subramanyam: This has no link with the transaction value as such because this is an ongoing issue always factored in any business.

Pulkit Patni: Fair point, I am aware this has been appearing for some time but I only wanted to ensure whether this had any linkage with the closure of Arutmin.

Anil Sardana: If that was the question, it was nothing.

Moderator Thank you. We have the next question from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

Bhavin Vithlani: My first question is on the coal companies. If you can help us understand the realizations and the cost of production - they have been changing on a sequential and on Y-o-Y basis. I understand that could be some mix or is there something else that we need to look for?

Ramesh Subramanyam: The coal companies for the quarter the FOB average or rather the net revenue after royalty has been \$47.

Bhavin Vithlani: No. My question was we are actually seeing significant movement on the realization as well as the cost of production so the cost of production on a Y-o-Y, sequential basis has been moving down. So how has that been? Is it like the oil prices impact or is it more on the productivity related case.

Ramesh Subramanyam: No, there has been lot of efforts in terms of rationalizing cost. There has been a very focused program on reducing production cost and I think that you are seeing clearly over the last few quarters and that is why some of the pressures of price realization is getting offset so it is not just, one would say that it is not just the price issue of the imports it is also to do with lot of efforts to rationalize cost at the mine.

Bhavin Vithlani: Okay. So correct me if I am wrong, the benefit of decline in oil prices is yet to be seen in the numbers it will be more reflected in the next quarter.

Anil Sardana: No. But that is the component which is certainly a part of the component of the cost of production. But at the same time you should know that for most of the mines, we have a forward cover on the way the oil prices are booked so it is not that if the spot prices have come down the miners will be able to take advantage on the oil prices because the oil prices have a

long term forward cover, so if it would have gone up we would have not seen similarly the up part impacting us so fast.

Bhavin Vithlani: Okay. But second is a more housekeeping question. In the CGPL you can help us with what was the fuel cost in the current quarter, and secondly because the compensatory tariff has been more of a dynamic number like if we were to assume that the compensatory tariff were to be booked what would be the numbers in the current quarter?

Ramesh Subramanyam: In the current quarter the compensatory tariff had we accounted it, it would be about 160 crores.

Bhavin Vithlani: Okay.

Ramesh Subramanyam: What was your second question, what is the?

Bhavin Vithlani: Fuel cost for the CGPL?

Ramesh Subramanyam: Fuel cost for CGPL was 1.85 in the quarter.

Bhavin Vithlani: Okay, fine. A last question is, we have actually seen bulk of the CAPEX getting over for major projects. Are we also looking at CAPEX for the any other Greenfield project if you can highlight? When can we the start of the...

Anil Sardana: Where did you see that the CAPEX is getting over I didn't understand. You are feeling in terms of new projects is it?

Bhavin Vithlani: Right.

Anil Sardana: No, I think what you should understand that CAPEX continues to be at the same pace except for the fact that you may not see projects in the Indian soil but we have a lot of investments going around in two segments, in our T&D segment in Mumbai there is a tremendous amount of investments are taking place right now. And also the other segment is the international segment where we have Georgia project going on, we have the investments in Zambia project going on, we have the investments in the South African project ongoing. So these are the projects which are now moving at a very good pace.

Ramesh Subramanyam: In fact our CAPEX outlay has been pretty much stable between '14-15 so therefore there is no imminent reduction as such.

Moderator: Thank you. We have the next question from the line of Gopal Nawandhar from SBI Life. Please go ahead.

- Gopal Nawandhar:** Sir on this presentation of this quarter this Q2 FY14 number in some companies are not matching with the presentation which you have shared in Q2 FY14. Is there any reclassification?
- Anil Sardana:** No, please go ahead which one are you talking about.
- Gopal Nawandhar:** For example Maithon the EBITDA of 171 crores of Q2 FY14 whereas the presentation which you have shared last year it states 141 crores EBITDA.
- Anil Sardana:** 141 is operating profit. So there are certain items I think it is more to do with other income.
- Moderator:** Thank you. We have the next question from the line of Pankaj Sharma from UBS India. Please go ahead.
- Pankaj Sharma:** Sir you mentioned that there was a revenue decline in CGPL because of lower capacity revenue. Sir had it been at the same level as Q2 FY14 what would have been the revenue in this quarter and also in this revenue of 1262 crores, how much is the capacity revenue and how much others?
- Anil Sardana:** So the capacity revenue would be approximately 100 crores additional Pankaj, just a little more than that.
- Pankaj Sharma:** Okay, And out of this 1262 how much is the capacity revenue?
- Anil Sardana:** I think if you have fuel number you can work back probably.
- Moderator:** Thank you. We have the next question from the line of Hardik Shah from ICICI Securities. Please go ahead.
- Prakash Goel:** Sir I have couple of question, one with regard to the eco coal mix in CGPL that is constantly coming down and you said the fuel cost number is Rs.1.85 per unit. Is it per unit sold or is it per unit generated?
- Ramesh Subramanyam:** Normally it is sold.
- Anil Sardana:** Prakash two things that you need to understand on the fuel - we have always maintained that it is not that we are getting after the use of low CV coal or the high CV coal, it is the mix that we are always interested in. Because when the prices of coal are lower themselves we do not get significant advantages in terms of burning more of low CV coal. It is only when the prices had gone to \$105 and \$110 that we had at that time innovated this concept. But now when the prices are down to this level, FOB prices being \$63, there is no point for us to do this, because we do not get a linear discount advantage by buying the low CV coal and the efficiency loss is much more.

- Prakash Goel:** I actually wanted to check that efficiency loss thing, as per the CERC compensated tariff order was it something that forces us to move towards the higher grade coal rather than eco coal as a structural thing?
- Anil Sardana:** What CERC did was to recognize the fact that it is not beneficial to have more of eco coal and they recommended that we will give you a 5350 kilo calorie coal instead of the design coal being 5750. And you basically use 5350 coal by blending. And they gave us the heat rate of 2050 which is what the heat rate that we had used at the time of bidding. That is it.
- Prakash Goel:** So basically it is structurally mix.
- Anil Sardana:** So that means they reduced the design coal but did not change the heat rate because the heat rate corresponding to 5350 coal should have been actually 2100 or 2125.
- Prakash Goel:** Okay, so close to 3% kind of loss on account of the heat rate because of this.
- Anil Sardana:** At that time what they did so therefore we right now use melwan coal which is anything between 5350, and 5500 coal. 90% of that and the 10% we blend the other coal.
- Prakash Goel:** The other question that I had is with regard to the coal company and the cost of production I think you explained this part, I missed that part, what is the reason for the cost of production jumping quarter-over-quarter?
- Anil Sardana:** Not jumping. You see what happens is, we had explained last time also that when you see a lower figure like 31.5 last time and now 35.9 this figure itself is low compared to the other industry players that you will see in Indonesia. That is what Ramesh explained. Now the change that happens a little bit is on account of how much is the component of overburden that is coming in. Because every time that you have mines where the over burden is high that will increase some bit of cost because it will spread across the amount of coal mine. And in the month when it is more coal and less of over burden then obviously that will not come and therefore you will see a very good cost. That much is the difference.
- Moderator** Thank you. We have the next question from the line of Satyam Thakur from Morgan Stanley. Please go ahead.
- Satyam Thakur:** For CGPL the reported loss number has gone down quarter on quarter from 305 crores in 1Q it has gone down to 274 crores in this quarter. And despite lower plant availability. So why is that? Was there some element of may be FOREX gain or something involved?
- Ramesh Subramanyam:** No, so previous year had FOREX losses, because the movement was higher and our fuel cost is one more reason. Lower depreciation there is change of depreciation method with the new Companies Act.

- Satyam Thakur:** Sir I am comparing quarter on quarter so depreciation change happened in 1Q.
- Ramesh Subramanyam:** Quarter on quarter the answer is mainly fuel cost and some amount of FOREX and also efficiency improved. Basically that is the main thing.
- Satyam Thakur:** How much was the other income at CGPL in this quarter?
- Ramesh Subramanyam:** Other income is minor, nothing negligible.
- Satyam Thakur:** Okay and was there any FOREX gain or loss in this quarter?
- Ramesh Subramanyam:** Yes, 89 crores is what I see here.
- Anil Sardana:** No sir there is no change.
- Ramesh Subramanyam:** Not much change, you are talking from Q1 right?
- Satyam Thakur:** Yes.
- Ramesh Subramanyam:** Not much change. So what is the difference you are seeing it is not much of a difference in any case.
- Satyam Thakur:** Well 305 crores of loss goes down to 274 crores of loss so around 30 crores difference.
- Anil Sardana:** Yes, that is the efficiency improvement.
- Ramesh Subramanyam:** That is mainly efficiency and coal price improvement that is all.
- Satyam Thakur:** Okay and sorry what was the FOREX gain number you mentioned?
- Ramesh Subramanyam:** There is no gain, it is a loss of 89 crores.
- Satyam Thakur:** And the second question is, why was Tata Power Delhi distribution EBITDA and PAT both down quarter on quarter?
- Ramesh Subramanyam:** There is a new order which came, you are saying quarter-to-quarter?
- Satyam Thakur:** Yes. 1Q.
- Anil Sardana:** That is a fact what you said is right.
- Ramesh Subramanyam:** It is the tariff order which they receive during the quarter which has an impact of about 30 crores.

- Satyam Thakur:** Sir but why would the tariff order take down your profits?
- Ramesh Subramanyam:** No. This is comparable to what you would have accrued versus what would have been finally be trued up. There could be some disallowances.
- Moderator** Thank you. We have the next question from the line of Deepak Agarwal from Elara Capital. Please go ahead.
- Deepak Agarwal:** My first question is can you comment on the CAPEX plan that you expect for FY16 across different businesses?
- Anil Sardana:** Deepak we do not give guidance in terms of the plan. We will only add to say that the CAPEX is salted to be maintained in a similar manner as with the past.
- Deepak Agarwal:** Sir similar to what we see in the current year.
- Anil Sardana:** That is correct.
- Deepak Agarwal:** And it should be predominately in the same set of projects which you are currently executing.
- Anil Sardana:** No. Projects could change as I said the focus now is more on Mumbai area CAPEX. We have the distribution and transmission network being laid that is one part and of course the intentional CAPEX will continue.
- Deepak Agarwal:** And I am missing some number on renewable CAPEX so that feasibly is there on 1,000 crores kind of number every year?
- Anil Sardana:** No, the renewable CAPEX emphasis will continue the way it is, we continue to have the same focus as we had before. We have not given any split before.
- Deepak Agarwal:** And next thing, what is the extent of under recovery that you have seen in CGPL in the capital cost during Q2?
- Anil Sardana:** The under recovery is of the order of about Rs.0.50.
- Deepak Agarwal:** Which has declined on a sequential basis?
- Anil Sardana:** Yes.
- Deepak Agarwal:** Okay, and my third question is on your comment like some of the competitors were mentioning in terms of expected search in the distribution franchises that the new government can award over the next two to three years so what is your reading in terms of this, which kind of states and cities can come for this distribution franchises?

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Anil Sardana: First of all this is not a phenomena of what central government may say or may want to do, it is a phenomena of what happens at respective state governments. And I won't want to really make any prediction except for the fact that this been a wanted need for last more than 10-15 years to do distribution reforms whether they do it through PPP model or they do through franchise model or they want to do through any means that they feel is more prudent and effective for them. It is needed in the system, it is already too late in the day, we have always maintained in terms of power that we do not like the idea of government being into business of business. And the early they do this the better it is and we of course have very good credentials to contribute and provide them more improvements if they wish to pursue with that endeavor.

Moderator Thank you. As there are no further question I now hand the floor back to Mr. Anil Sardana. Over to you.

Anil Sardana: Thank you and I appreciate all your question and like before I would suggest that if you have any more questions feel free to write to our team and like the way you had appreciated the details, we also appreciate our team's endeavor to provide you with all the answers from time to time and feel free to write to them and we assure you that you will get all your answers in a very quick response. So once again look forward to seeing you in the third quarter results. Good day.

Moderator Thank you. Sir just before you end the call there is one more question in the queue would you like to take it now?

Anil Sardana: Since Gopal had asked the question before ask him to write to our team and we will respond.

Moderator: Participants, you may now disconnect your lines. Thank you.