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“Tata Power Q2 FY16 Earnings Conference Call”

November 09, 2015



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Moderator: Ladies and gentlemen good day and welcome to the Tata Power Q2 FY16 Earnings Conference Call. We have with us today from Tata Power Mr. Anil Sardana – CEO and Managing Director, Mr. Ashok Sethi – COO and 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 “*” and 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 welcome to our invest friends. We begin the proceedings of Q2 FY16 I am sure you would have got the input material and would have had time to go through that. I can imagine that the time this morning could have been little short but we are conscious of the fact that many of you have to attend other fixtures which are there perhaps later in the day. So without wasting further time let us begin with your questions and we will be please to answer.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Sumit Kishore from J.P. Morgan. Please go ahead.

Sumit Kishore: My first question is in relation to Mundra UMPP, could you give us an update on the status of where the matter stands and APTEL the compensatory tariff? Also we have heard from Adani Power that they have availed for RBI 5-25 Scheme for restructuring debt for few of their projects how do we stand on the same for Mundra UMPP ?

Anil Sardana: Okay, as regards the matter in APTEL you must have got on the news that from 1st of December APTEL has announced that they will start hearing this matter which is with the bench of three members two judicial and one technical member and they have announced that they want to do it every continuous days so that they are able to conclude that before they break for the Christmas Holidays. Now, once we conclude those hearings in December in first two weeks hopefully, we should expect an order subsequent to that, so that is the status on APTEL. As regards to your part in terms 525 scheme I just want to clarify that without commenting on the other name that you mentioned, as far as CGPL and Mundra is concerned we have approached Indian lenders for restructuring of the loan but not under the 525 scheme we are doing it under the scheme which is the RBI scheme announced in 2014 August as per there circular which entails that with the change the loan could actually be extended for long term at the same time at more competitive terms. I would certainly appreciate if you could hold on for some more time we will make that announcement as soon as we have the necessary approvals in place. I can only tell you that this is at advance stage and therefore you should be hearing from us very soon.

Sumit Kishore: Okay. And Also in relation to Mundra UMPP what is the update from Tata Power parent to Mundra UMPP and how much interest has been waived off by the parent in H1 FY16?

- Anil Sardana:** Approximately 48 crores of interest has been waived off in this quarter.
- Sumit Kishore:** And what is the total debt amount?
- Anil Sardana:** Around 3,000 crores and we will cut down that number at various interval so the impact of quarter is coming to about 50 crores - 40 crores.
- Sumit Kishore:** Okay. Just one small point on the 150 Megawatt PPA with Kerala for Maithon which should we are we right in believing that we will kick off from 1st January, 2016 with medium term open access becoming available?
- Anil Sardana:** Sumit, the open access to Kerala of 150 Megawatt which was supposed started that has any time in October itself is likely to happen somewhere toward end of November. It is waiting for some internal transmission lines to be get commissioned. As far as the power grid corridor is concerned it is available now we are just waiting for the internal lines in the Southern region which is the state lines to get commissioned.
- Moderator:** Thank you. Our next question is from the line of Bhavin Vithlani from Axis Capital.
- Bhavin Vithlani:** Sir, could you help us on the Coal cost from the Coal Mining Company I believe you have changed some reporting style. So if you could help us what could be a like to like number so have highlighted it that \$32.3 so, what could be like to like number versus previous quarter?
- Anil Sardana:** What do you mean by change in accounting I do not know but what is actually do you want to know?
- Bhavin Vithlani:** The notes in the presentation slide number 22, highlights that you have included the inventory movement which has not been in the previous quarters?
- Anil Sardana:** Yes. So before that inventory movement, your current year number as against 32.31, 37.9.
- Bhavin Vithlani:** Okay. And if you can help us why was a sudden increase in the...any specify reason?
- Anil Sardana:** Sorry where is the sudden increase? Net off the inventory movement is actually coming down and when you are looking at real underline cost it should be seen including inventory movement, right.
- Bhavin Vithlani:** Okay. You mean the previous quarter was 32.6 as reported in the presentation and you are highlighting it is about \$37?
- Anil Sardana:** So if you look at the underline, if you are comparing last quarter then it is 32.66 becoming 32.3 which is almost staying same level vis-à-vis in last year it is down by \$4.

- Bhavin Vithlani:** Okay. So the first quarter numbers and the second quarter numbers are like to like comparison?
- Anil Sardana:** Right.
- Bhavin Vithlani:** Okay, fair enough. Second, if you can update us on the sale of the Indonesia Mine?
- Anil Sardana:** You mean the Arutmin mines so, still the steps you recall that we have been regularly updating you guys, the issue is that there are certain CPs to be completed part from the transaction to complete all the steps because there is a little bit of restructuring to be done before these transaction goes through. Those are still in process which is taking time and we are following-up very closely. So until that time we will have to wait for the transaction to be closed.
- Bhavin Vithlani:** Okay. Last time you had highlighted that there were certain objections by the lenders so, are those at least clear. So is there any positive movement versus the last quarter?
- Anil Sardana:** Yes, progress has been there, certainly progress has been there. Objection would not be the right word there is a process which we have to go through the lenders approval et cetera.
- Bhavin Vithlani:** Okay, last. If you can update on the acquisition of the power plant?
- Anil Sardana:** Which one you are talking about the IEPL?
- Bhavin Vithlani:** Yes, The Maharashtra Power Plant 540 Megawatts?
- Anil Sardana:** Yes, so the closure of the transaction is again pending for certain CPs to be completed and they are still in process.
- Moderator:** Thank you. Our next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.
- Mohit Kumar:** Sir, one question pertains to our Delhi distribution. I think our regulatory assets were reduced in the current tariff order. So have we provided for in this quarter?
- Anil Sardana:** No, I have not understood your language. Why should we provide for if they have been reduced?
- Mohit Kumar:** No. In the recent tariff order the regulatory assets revise downward....
- Anil Sardana:** You mean to say that the tariff order as said that there is an assumption of higher income and therefore the regulatory assets will deemed become lower that is what you are saying?
- Mohit Kumar:** Right.

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- Anil Sardana:** So the fact is that in terms of how the future pronouncement have been done that compared to the last quarter the regulatory assets have come down by about 300 crores. So right now the regulatory assets are as of today's standard 4,870 I mean as of September end stand at 4,870 crores.
- Mohit Kumar:** Okay. Sir do you need to provide for that or is this something which you are appealing against that...
- Anil Sardana:** No, I think you again need to understand this very clearly the regulatory assets is what is promised by regulator for him to provide through the tariff mechanism that means this regulatory assets will be serviced and ultimately liquidated by providing that much margin in the tariff order. What we are trying to explain to you that the tariff order did give us surplus to an extend of 300 crores and therefore we could liquidate our regulatory assets which was outstanding at 5,172 crores as of the end of quarter one and today it is become 5,870 so we do not have to provide anything, it is a welcome situation.
- Mohit Kumar:** Sir, one clarification on your rate of regulatory activity accounting, the regulatory expenses for income varies quarter-on-quarter can you please explain why this 500 crore is have been providing which of the assets?
- Anil Sardana:** So Mohit, this is actually provided is not the right word. The Accounting Standards require you to disclose any moment due to rate regulator as a separate line below so therefore these are been provided for the distribution entity.
- Mohit Kumar:** This is pertaining Mumbai and Delhi put together is 500 crore?
- Anil Sardana:** Correct.
- Mohit Kumar:** Okay. And sir lastly pertains to the Ideal Energy Power Limited I think recently got the approval for MERC, right?
- Anil Sardana:** Right.
- Mohit Kumar:** For 170 Megawatt?
- Anil Sardana:** Right.
- Mohit Kumar:** So are we still in the talk part or plan to convert this unit six into Coal based power plant?
- Anil Sardana:** Mohit, the two issues are very distinct issues as per as 170 Megawatt is concerned you are right in saying there is some movement in terms of regulatory system permitting tata power distribution to use this 170 Megawatt from the next year onwards. As far unit six is concerned while we have all the approval MOF approval et cetera we are waiting for consensus a political

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consensus more than anything else for the unit to be converted to Coal because as you know it entails the spending from our side and we will do that spending provide there is clarity that this unit is needed for the safeguarding of the islanding system in Mumbai. Now that is a technical jargon though but what it ensures is that Mumbai continues to get its supply and any jerk or any problem that happen in the grid system in Maharashtra insulate and isolates Mumbai and that is how in many occasion in last many years Tata Power units in Trombay and Hydro's are actually safeguarded Mumbai from any interruptions, that decision has to come politically and we are waiting for that decision to come.

Moderator: Thank you. Next question is from the line of Sumit Kishore from J.P. Morgan. Please go ahead. Mr. Kishore, your line is unmuted. Please go ahead with your question.

Sumit Kishore: Yes, so what is responsible for the increase in other current assets by about Rs.10 billion from March 2015 to September seen on a consolidate level? The regulatory assets were sort of you know trending down so I was wondering why this increase?

Anil Sardana: Just one second, can we come back to you on this?

Sumit Kishore: Sure. And also you could tell me, what is the current portion of long term debt in other current liabilities which has increased from almost by about 3,000 odd crores?

Anil Sardana: This is reclassification of certain outstanding amounts which were subsequent to some recent agreement signed between that mining company and one of our shareholders there our partner and that is based on that agreement. The amounts have to be recovered therefore they have been reclassified.

Sumit Kishore: Okay. So the debt position would not have changed because of that?

Anil Sardana: Yes

Moderator: Thank you. The next question is from the line of Shankar K from Edelweiss. Please go ahead.

Shankar K: On the CGPL numbers if you look at sequentially our output is lower the spread between the revenue and cost is almost flat but our segment EBIT is up from 81 crores to 190 crores?

Anil Sardana: You are talking about CGPL.

Shankar K: Yes. Extremely, sorry, I have talked about Coal Mining entities, sorry?

Anil Sardana: Coal mining entities.

Shankar K: Apologies.

- Anil Sardana:** Can you repeat your question itself.
- Shankar K:** Our Coal sold is lower, our spread between cost and revenue is flat but our profit segment EBIT is up from 81 crores to 190 crores?
- Anil Sardana:** Yes, so that is basically because of last year there were certain reversals and credits there were account of VAT related adjustment.
- Shankar K:** No, sir I am talking about Q1 over Q2 not Y-o-Y sequential?
- Anil Sardana:** See in Q1 we had a provision for domestic coal. So that is other decrease, we have made a 74 crores provision there. That is how you are seeing improvement in EBIT and there were also certain provision in the Coal mines, one-off provisions and therefore you are not seeing this in this quarter. Both these factors together answers your question as to why spread being under same however it is true.
- Shankar K:** Okay. So the other way you are saying what we are reporting in the current quarter rather the true spread. In Q1, it was because of one of the spread the profits were looking at much lower, so even otherwise even Q1 it would have been very close to current quarter's number?
- Anil Sardana:** True.
- Moderator:** Thank you. We have a question is from the line of Mr. Bhavin Vithlani from Axis Capital. Please go ahead.
- Bhavin Vithlani:** What is the one-off impact on IEL?
- Anil Sardana:** There is a essentially truing up exercise which happens just like PPA so, that impact has taken plus truing up exercise for those plants which are under IEL has been conducted.
- Bhavin Vithlani:** Is that to the tune of 30-odd crore?
- Anil Sardana:** Yes.
- Bhavin Vithlani:** Okay, my last question is in the Delhi Distribution we have seen a healthy trend of reduction in the regulatory assets for the year as a whole what should be a trend that could be more ideal to assume?
- Anil Sardana:** Bhavin, it would not be right for us to have a guess in terms of the reduction but you can assume that is the cost of fuel do not change for the bulk supply then it could be the similar trend in every quarter.
- Bhavin Vithlani:** Sir, but 300 odd crores a quarter...

- Anil Sardana:** Yes, if the fuel surcharge do not change because that where it gets impacted.
- Bhavin Vithlani:** Okay, fair enough. And lastly what could be the depreciation for CGPL was it 120 crores in the quarter?
- Anil Sardana:** CGPL, for the quarter the depreciation is 102 crores.
- Bhavin Vithlani:** 102 crores, okay. And last thing in CGPL what is the compensatory tariff hike? Earlier it was about 30 odd paisa what would it be in the current quarter?
- Anil Sardana:** Similar, same number that is 33 paisa is the first half number.
- Bhavin Vithlani:** And this is despite reduction in the Coal prices?
- Anil Sardana:** No, I think you are saying in last two quarters has not been substantial decrease. I am talking about roughly it is still about 33 paisa for the first half and 31 paisa for the quarter because exchange rate also has some impact sometimes.
- Moderator:** Thank you. Next question is from the line of Shankar K from Edelweiss. Please go ahead.
- Shankar K:** Sir, just wanted your take on the SEB announcement revival package that has been called on as of now, what is your take?
- Anil Sardana:** I think we have the fortune of having Minister in the city and he is going to speaking about that in about hour or so, so therefore it is not right for us to make a comment right now. Let us hear him out and understand that better. So let us wait.
- Moderator:** Thank you. Our next question is from the line of Ankit Fitkariwala from Jefferies. Please go ahead.
- Ankit Fitkariwala:** Sir, my question is regarding Mundra. Basically I just wanted to know that at the start of the presentation you said that the bench will start hearing it from 1st of December I believe, right?
- Anil Sardana:** Right.
- Ankit Fitkariwala:** Okay. So what is your take on this as in saying in two weeks or before Christmas they give out their verdict, what do you expect after that as in whichever favor the verdict is what is the path after that. Who will again contest it at some other place or where does it go from there just wanted to have a sense?
- Anil Sardana:** Ankit, I can say that they will give their verdict before Christmas, I said, what they have stated is from 1st December they will start to hear it on a continuous basis and they have said that without interruption. So therefore they will conclude before Christmas hearing path. When do

they will give the verdict that is for all of us to wait and see. Now your second part of the question was where does it go from there depending on what the decision is I guess people will analyse both sides and the agreed party may decide to go an appeal in Supreme Court so that is the natural path that we could follow, but I am not sure what will transpire and how balance the order would be that people may decide to actually implement.

Ankit Fitkariwala: Okay sir, and typically between the hearing and the verdict any sense that you can give that let us take a month two month because you having seen the case for such a long time so...

Anil Sardana: No, I mean if you take the example of CRC they took close to about a month and half before they took out the order after the last hearing et cetera. In the APTEL case we have not got any order on the CRC part but if you take any other example yes, they do not normally forecasting it beyond one month.

Moderator: Thank you. Next question is from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

Bhavin Vithlani: My question is on regular bases we have been strongly following the capacity addition in the wind and recently we have seen significant reduction in tariff in the solar and significant thrust of government on solar. So is there any change in the strategy of renewable within the mix like we will now go solar versus wind?

Anil Sardana: Bhavin, I want to touch your question to talk about the fact that you must have seen we have announced enhanced focus on renewable including carving out of some renewable that were there Tata Power and aggregating at the subsidiary level wholly-owned company which is TPREL, Tata Power Renewable Energy Limited. It is very pertinent that as a company we will up our NTNR our focus on renewable and we will therefore spearhead both organic and inorganic options to size-up the company. Now in terms of wind and solar I guess I would say we will be equally keen on both.

Bhavin Vithlani: Okay, as of today are the IRR better in wind or solar according to you as per current tariff structure?

Anil Sardana: Tariff structure is very differently between state to state and therefore, that is one area that you cannot ever be sure how the margins will be there but the second part is also the variability in the wind performances is more compared to the variability in the radiance from the Sun Energy. We have seen at least Sun Energy is more consistent and the variations are lesser. Wind has more variations in its own performance and therefore those are natural traits in Wind of course is required much more land as compared to solar because you have larger right of way issues in terms of building local substations, building lines to go up to the main grids and these are also in many times difficult terrains whereas the solar depending on the radius required rather a leveled ground and is much faster and easier for us to erect and commission

therefore there are positives and negatives from both sides but at the same time it will be good for a company to balance the portfolio.

Bhavin Vithlani: And any number on terms of Megawatt attrition that we should be modeling for 150 Megawatt to 200 Megawatt per annum would that be a fairer number to assume?

Anil Sardana: I recall our colleague who is the CEO of Tata Power Renewables Energy had made an announcement some time back that it will be anything like 150 Megawatt to 200 Megawatt each year.

Bhavin Vithlani: And that stays?

Anil Sardana: He had made that announcement I think about six months back so, now we have to go back to him and see after this change that he sought from us what will be his decision. I cannot speak on behalf of TPREL.

Moderator: Thank you. Our next question is from the line of Devika Mundra from J.P. Morgan. Please go ahead.

Devika Mundra: Regarding solar projects it said there was recently project which was bid out at 4.63 per unit. Sir, any thoughts on the low tariff and what would you think would be the capital cost at now people are taking in to consideration for solar projects?

Anil Sardana: Devika, it will be unfair for us to reverse pursue our numbers in terms of what will be there CAPEX, what will be there return profile. I think it is every individual company's cost of capital, expectation of returns and structuring methodology it is better for us to leave it there, but of course I see lot of analyst trends putting of their point of view and it will be nice for your community to rather educate us, what do you believe are the various assumptions that they could have taken.

Devika Mundra: Okay, fine sir. And sir, one housekeeping question what will be the fuel cost at Mundra in per unit terms in the quarter?

Management: The fuel cost in Mundra for the quarter is Rs.1.41 paisa, this is only the coal.

Moderator: Mr. Anil Sardana, would you like to add closing comments.

Anil Sardana: Okay, thank you Darryl. Thank you friend for being on the call and we hope that we have answered all your questions related to Q2 FY16 results. Just in case you have any more queries or any more subjects to clarify do write to our Investor Relation team and we will ensure that you get a prompt response. Thank you for being on the call and we look forward to you joining us for Q3 FY16. Thank you.



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Moderator: Thank you very much members of the management. On behalf of Tata Power, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.