



“Tata Power Limited Q2 FY18 Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Tata Power Limited Q2 FY18 Earnings Conference Call. As a reminder, 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. In case 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 now hand the conference over to Mr. Anil Sardana – CEO and MD, Tata Power Limited. Thank you and over to you, sir.

Anil Kumar Sardana: Thank you. Welcome to all our analyst friends to the Q2 FY '18 conference call. You have got all the information related to our results today. And as you have seen that we have registered healthy growth in the EBITDA numbers as also in the overall performance, barring the one-off adjustments that we had to do for Docomo as well as to the Rithala plant at TPDDL in Delhi. The rest of the performance of each of the units including the renewable unit has been quite well. And I want to emphasize the fact that the acquisition that we had by way of WREL has actually started to show very positive results and we're very happy with the performance. And the good part is that these are very steady assets and we are able to, therefore, register improved performance. And we have taken several other initiatives in terms of making sure that the tilt is integrated and new things that we will incorporate will further boost the performance from these plants to make sure that we have higher output from most of these units.

Fortunately, for us, the receivable situation as also the situation with regard to offtake, both continued to be good, and we don't have any unnecessary or undue concern except for some periods that we had in Tamil Nadu, which fortunately in the last month of September and October has been pretty good. So in other words, we have been able to really stitch up arrangements and by virtue of which the offtake is steady now and we don't have any issues with regard to that.

So renewable's a good story. Tata Power Solar continues to do well as we talked before. They have continued to get good orders and hopefully, the situation will continue that way for times to come. Rest of the assets do have performed well in terms of various thermal stations as also the transmission and distribution ventures and trading.

I wanted to also add that as regards the Trombay issue, which many of you have been following in terms of newspaper reports, fortunately, the Central Electricity Authority has created a report in terms of the ability of the system to carry the power from non-embedded sources within Mumbai, and that's a favorable report from our perspective. So we clearly feel that we should be able to have a reasonable PPA set with the distribution companies in Mumbai. For the reason that, as you know, BEST is right now contemplating getting bids from the marketplace. I won't want to comment on that aspect because that's quasi-judicial matter because it is still with the regulators. But I would say that as far as the technicalities of the matters are concerned, I think seem to be panning out the way we had planned. That much I

can just now talk. More than that, we will talk as things unfold from the regulatory body in times to come. So that's all I wanted to make as part of the initial comments and we will be happy to take all your questions and perhaps so that use that opportunity to communicate anything else that we needed to do.

Yes, one important aspect that you must have noticed. Our hedge of coal and CGPL continues to work. So much so the current regulators have clearly now considered the 2 as a combined CGU and by virtue of which, the two clearly operate in the manner that we will see that one does not have to look at any issues of future impairments. So the EBITDA for the current quarter, if you see was about 115 crores at Mundra. And comparatively if you see, the variance was about 166 crore at the EBITDA level compared to last year same quarter. But when you look at the coal company, the variance is positive 299 crore. So very clearly, the hedge has more than provided for work on losses because of the high coal prices. I thought, I just bring that to your attention while we are happy to take your questions. So over to you. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Apoorva Bahadur from ICICI Securities. Please go ahead.

Apoorva Bahadur: Sir, wanted to know on this great performance by renewable business. So what are the exact operational steps that we have undertaken to ensure that the generation remains high and the performance is good?

Anil Kumar Sardana: Well, in terms of operational part, the 2 aspects that are very critical are the internal grid performance, that means how you maintain up to the grid operations and the second is how you monitor the grid availability of the main evacuation system that is connected to various plants. And if you look by and large, the availabilities have tremendous room for you to improve. We make sure that we work in tandem along with the respective state units because we work in today about 10 states. We work in tandem to a point that we coordinate that the maintenance schedule that they will follow will be during our off-peak hours. So for example, if it is solar plant, make sure that the maintenance is facilitated during the night hours; if it's wind plant, make sure that the maintenance is coordinated for no windy season. So that yielded a lot of advantage to us. So we, therefore, are able to stabilize matters and make sure that we don't lose any of the units when the season is good for us. In addition to that, there are changes which we are also further bringing which is a bit time consuming. And as I mentioned, we are adding tilts to the solar units and making sure that scientifically reorienting the direction of the wind plants. We have got the tools now for doing that. So those will further add to the generation from these plants.

Apoorva Bahadur: If I may ask, are we also doing DC loading on these solar assets?

Anil Kumar Sardana: The DC loading you do on the solar assets when the load is directly connected to these plants, which we have done as a part of CSR, which we have implemented at many locations. We

don't do that in the commercial plants because the PPA is in the AC. You don't have PPA in the DC loading side.

Apoorva Bahadur: Okay, sir. Is it because there's some issue from the regulator?

Anil Kumar Sardana: No, those PPAs today actually require you to give the output in the AC. Therefore, you are giving the output post to your inverters.

Apoorva Bahadur: Okay. Sir, if I may also know, on the solar manufacturing part, so is our module pricing strategy basically linked to international module prices?

Anil Kumar Sardana: So, Apoorva, we do both export as well as we sell in India. Now typically, the loading today in Tata Power Solar is primarily because of the domestic content requirement projects, which, fortunately, are in reasonably good numbers that you have to price it in line with what the domestic content requirement projects will make you competitive. But just to answer your point the other way around, we do export reasonably well. And therefore, we don't have to use the arbitrage or anything like that. We do that based on the costing aspect itself. So our modules are reasonably competitive and efficiency wise reasonably good that we still get export orders.

Moderator: Thank you. We have the next question from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.

Dhruv Muchhal: Sir, firstly on the Mundra side, there seems to be impressive cost saving there effectively. The FOB cost of coal is flat Q-o-Q. Obviously, the coal prices have increased. So are we seeing some benefits or how sustainable this is?

Anil Kumar Sardana: Well, as you know, Dhruv, we keep making efforts to blend coal from different sources. Wherever we are able to lay hands on distressed coal or low-cost coal, we will keep making those efforts. But I would say in the last quarter, that wasn't a major part, except for the fact that there were some heat rate improvements on account of some of the plant work that we had done. But those for us will reflect in the next few quarters more. There wasn't much significant work that we did there. Yes, there is one aspect that I must add so that it is treated the right way in terms of you're doing your calculation. Since our availability factor in this quarter was more than the availability that brings us the fixed cost recovery, therefore to that extent, unlike last quarter, which we might be comparing, we have got the full recovery for fixed costs. Whereas in the last quarter, if you recall, we were short of that because of our maintenance schedules. And therefore, the availability was lower. And this quarter, we have no reduction on that account. We have recovered full fixed cost. So maybe that is another factor you may keep in mind.

- Dhruv Muchhal:** Sure. Sir, but the fuel benefits should have helped you because you are underlying fuel cost escalation by CERC would have come, but your fuel cost did not increase. So that is also helping you, right?
- Anil Kumar Sardana:** 6 monthly.
- Dhruv Muchhal:** Sir, secondly, on the notes to accounts, you have mentioned about the Delhi regulatory asset balance, what the regulators approved and what our balances are. And I believe that's largely because the physical verification of assets which is pending, so anything on there because I can really see a significant amount?
- Anil Kumar Sardana:** We have just brought to the notice because that's what regulator did this time, unlike before. And therefore, until he finishes this exercise, we should know that. As far as we are concerned, yes, exactly, we have done that for the sake of good governance. As far as our yields are concerned, they have represented to us that everything that we have, we are confident that it should be all once again back into the regulatory asset fold.
- Dhruv Muchhal:** So basically, once the physical verification is done, so you will start to recover this amount and...
- Anil Kumar Sardana:** There are 2 major components, Dhruv. One is the physical verification; the other is the carrying cost. So these are the 2 major components which add to more than 75% of what constitutes there. The balance is related to one of the PPAs with NTPC plants. So these are the 3 typical methods. We have nothing else more in our system.
- Dhruv Muchhal:** Okay. And sir, last question if I may. So the best PPA business coming out of course, you cannot dwell much into it. But even if say BEST takes this PPA, there will be transmission constraint. Bombay already has a transmission constraint. So even if we go with this PPA, so effectively, using some transmission asset, which currently otherwise either Reliance or you were using. So because of the constraint, this PPA of Trombay plant #6 still will be requiring power, if not from BEST, either from you or from Reliance? Does that understand right?
- Anil Kumar Sardana:** No, Dhruv, it's not that simplistic as you're trying to project. Transmission assets that can bring power to Mumbai are common to the 3 Discoms or 4 Discoms to be very precise. MSEDCL, they also draw power from Mumbai and adjoining area like Navi Mumbai because from the perspective of transmission line, it's a common infrastructure. Then BEST, then Tata Power and then Reliance. All the 4 draws and there is, therefore, transmission line, which is allocated for short-term purchases as well as for other need purchases for these 4 Discoms. Beyond that, whatever is available in terms of new lines that are getting added or new infrastructure that is getting added is giving perhaps the confidence to various stakeholders that they perhaps could import more power. So 2 things that one needs to understand. One, as consumers of Mumbai, as also we need to understand as stakeholders, that number one. While the infrastructure may grow, it will take time to complete because right of the issues etc. in Mumbai and adjoining

area are so intricate that it's not easy that somebody can project that I can commission so and so place or so and so ongoing line on so and so date. This will certainly take inordinate time. So that's one factor on which reason that entire import is not possible. Number two, islanding. If you remember, most of the metros want to do islanding. Here, the islanding is by virtue of the embedded asset. You can only island by virtue of the embedded asset. So therefore, if the embedded assets are not into the picture, then a small disturbance in the transmission line or in Maharashtra area would also mean load shedding for Mumbai. So those are the 2 factors based on which the study by independent authority, as I said, Central Electricity Authority, which had done this, have also concluded the fact that if we don't see that in the next near foreseeable future of 5 to 7 years, there is any respite on that account. So that is where that gives us the trust and the confidence that we will have the embedded generation still progressing.

Moderator: Thank you. We have the next question from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: My first question is on the assets held for sale on your balance sheet currently. There has been an increase of about Rs. 4.5 billion versus the March '17 level. I understand this is largely pertaining to PT Arutmin and the absolute number, but what is the increase related to?

Ramesh Subramanyam: This is the investment which we held in Tata Communications. So once, even if you initiate a process, you know...

Anil Kumar Sardana: Tata Communications and Panatone.

Ramesh Subramanyam: And Panatone which we directly and indirectly we hold. So as you know, the accounting standards provide for the review even take initiative to dispose of an asset you have to reclassify. And you might have heard that as a group we're trying to unlock cross-holdings and this is part of that initiative. So that's why it's classified like that.

Sumit Kishore: Okay. So it includes PT Arutmin and your intention to sell stakes in Tata Communications and goes indirectly through Panatone Finvest.

Ramesh Subramanyam: Correct.

Sumit Kishore: Okay. And my second question is I understand that you wish to reduce your consolidated debt equity to nominative levels, 70-30. So I mean what timeframe? And that would entail debt reduction by about 120 billion to 130 billion on your current debt base. If Mundra majority stake sale to state Discoms does not go through, do you still hope to achieve this normalized debt equity? And what is the road map to do that?

Ramesh Subramanyam: So first of all, Sumit, on Mundra stake sale, we are not even now talking about in terms of the target which you've taken to reduce our debt equity because the valuation of CGPL etc. still is in very early stages, and we have no idea what valuation it will end up with. The target that we

have in mind is a combination of initiatives on the loan side as well as on the equity side. As you know, one of our priorities is to unlock as much as our non-core assets. So that will give us the equity part. And that will also simultaneously, therefore, reduce the corresponding loans. So this is really the combination we're trying to use over the next 6 to 18 months, I would say, because it will take time for unlocking all these. There are lots of process issues, but we are confident that we will be marching towards that target which we've set for ourselves.

Sumit Kishore: Sure. My only point was that the non-core assets that we have on our anvil, I mean, would they be sufficient to get to this number of 12,000 crores, 13,000 crores? Or if that requires some other measure in terms of stake sale in your renewable business or something on those lines?

Ramesh Subramanyam: So I must say that the target is not something which we are trying to do tomorrow. The first steps would ensure that we are well within a range, which is acceptable, okay? And ultimately, of course, we would like to reach even less than 70-30. So yes, to answer your question, we may need more probably equity infusion at some point, okay? So the first step itself would take us considerably ahead, given that some of the things like the sale of our Arutmin, the cross-holding sales would itself take us halfway through. And that's really the target.

Sumit Kishore: So Arutmin is part of your calculation over the next 6 to 18 months.

Ramesh Subramanyam: Of course, some of it. Not all, some of it.

Moderator: Thank you. We have the next question from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: Sir, firstly on the Mundra, the Forex loss, just wanted to reconfirm whether this is an actual loss or is it a notional number, which has been...

Anil Kumar Sardana: Yes, notional, mark-to-market.

Ramesh Subramanyam: It's an MTM.

Abhishek Puri: Okay, fair enough. Sir, just a request. I mean, in the detailed presentation that you provide, if you can probably highlight the one-off effects because of the multiple subsidiaries, it tends to get lost somewhere in terms of the analysis. That would be helpful to analyze.

Ramesh Subramanyam: Yes. We will give. Good point, Abhishek. We will give that. But you would've seen from the press release also so the Docomo-related adjustment within the net income is 113 crores. And then we have certain other one-offs. One is in TPDDL and one in one of our overseas subsidiary. All put together, it's about 150 crore of one-off items in this quarter.

- Abhishek Puri:** Right, sir. Yes. So secondly, I'm looking at the subsidiary financials and most of the subsidiaries have seen a reduction in the financial charges whereas at the consolidated level, it has gone up quite considerably, almost by 50 crores, 60 crores. So what is the reason behind it? And where have you accounted for this FX loss? Is it in the other income side or is it on the interest side?
- Ramesh Subramanyam:** I think the main reason why you see an interest at a consolidated level going up is really that the Walwhan that is the erstwhile Welspun. That asset's interest is getting booked for the first time, okay? So in the last year, it was not there because we acquired this 4th September. So about 132 crores plus the interest on the bond which we raised for the acquisition together about 160 crores is only on account of the acquisition, which was not there last year, okay? And we also settled this Docomo liability. So on that, there is some interest payable that also gets classified here, that's about 33 crores.
- Abhishek Puri:** But that's again, is that one-off is it going to be a recurring amount of 30 odd crores?
- Ramesh Subramanyam:** So the Docomo piece 33 crores is one-off. But the other 2 are regular, which is the renewable business-related interests.
- Abhishek Puri:** Right.
- Ramesh Subramanyam:** That number Abishek, that is also then correspondingly there's an EBITDA increase.
- Abhishek Puri:** Okay. Fair point. So that need not to be adjusted in that, okay? Sir, lastly, if I may ask one more question, on the renewable side, you've seen a quite constant improvement in the performance. Are you looking at one of the projects that one, I think, the best utilization for Tata Power in the country and I was calculating the CUF factors of the PLF plant which is coming to almost 19%. I think referring to earlier question that can't you bump up the DC capacity and increase the utilization factor to 23%-24% where at a contractual level at most of the PPAs provide for up to 24%, right, since the module prices are declining quite a bit?
- Anil Kumar Sardana:** No, Abishek, no. It's not that consistently the number that you've got from somewhere, that's the criteria. In fact, now most of the regulators and most of the Discoms are very clear on this part to say that we will restrain this part. So we are already, in fact, almost touched the threshold of whatever are the PPA numbers, most of it basis. Wherever there are gaps, work is already on to make sure that it reaches that number. And in fact, that's where we will leave no stone unturned to make sure that we capture that whatever is the maximum allowable capacity.
- Abhishek Puri:** So in the existing contracts, if I'm not wrong actually, it is 24% is the peak allowable rate.
- Ramesh Subramanyam:** No. There is maybe a one or two handful PPAs that there is some...

- Anil Kumar Sardana:** No. Wherever it is there, I'll tell you there are there. Wherever it is written, they've also put ended by the fact that the number of modules as per cleared in the chief electrical inspector drawing, that should not exceed without their permission, which clearly means that they will restrain it to making sure that the capacity of DC is not inordinately enhanced. That's what they know very clearly that because assume that in Gujarat, for example, there is a provision for higher number that you're saying, don't quote me anywhere but just to tell you, if you do that Rs. 15 is the tariff today, then everybody will be just be adding to increase that number, the other guy will go broke.
- Abhishek Puri:** Absolutely. Gujarat and Punjab, as we know, their Discoms have disallowed any further increase...
- Anil Kumar Sardana:** They are so clear today that even if suppose people go on the pretext, I know this for sure without quoting people, who have gone under pretext of saying that I have derated my module or my modules have got derated because of quality and I want to add more module, give me permission. Because as I said, sorry, the derating factor was not supposed to be built in into your number of modules that you added, now I will not permit you. So you even disallowed few modules that people added just to think that this might be the sort of beginning of their, perhaps, adding a spree of more strings. But the state is very clear boy, I can't give you anymore leeway to you and I'm on this pretext.
- Abhishek Puri:** That's very helpful, sir. If I can ask last one question, the coal sales are bit flat in the current quarter again. Despite good pricing, why are you not bumping up your output and selling more in this market?
- Ramesh Subramanyam:** So Abishek, part of the reason is we've seen lot of rains. Indonesia, a lot of disturbance has happened in terms of transportation. That's one of the reasons. Other than that, you're right. That's what the coal team is actually trying to do now, to catch up, right?
- Moderator:** We have the next question from the line of Apoorva Bahadur from ICICI Securities. Please go ahead.
- Apoorva Bahadur:** Sir, wanted to know more about your EV charging business. So what sort of business model that we following on this one?
- Anil Kumar Sardana:** Apoorva, too early days for us to talk about business model for EV charging. Let's have the electric vehicle business model, and then we will tell you our charging model. Since you ask this question, you should know that there are only 200 electric cars in whole of Mumbai city. So only 20 ply on the road every day. So let's not talk about business model today. We can only say that we are on top of this. We have complete set of oversight in terms of what it means to do this business. And that's the reason why we have put wherever we believe that there is an early sort of learning that we need to facilitate to us as also to customers. So we

have put about dozen sets in Delhi and about similar numbers in Mumbai and we're learning as we go along. But right now, let's not talk about the business model.

Apoorva Bahadur: Okay. Sir, just for my understanding, if I may know for a city size of Mumbai and with the traffic congestion, how many EV charging stations would suffice?

Anil Kumar Sardana: So depends on again electric vehicles and the type of vehicles. So if you have electric vehicles of the type of Tesla, then you actually can do it home-to-home because that takes you about 300 kilometers plus. If you have vehicles of the type that Indians are today contemplating, that is 120 kilometers, which would mean that if there are taxis and if there are other transport vehicles, if they take a customer from airport to home and back, they would have discharged their battery and a taxi can't survive with that point of view. Therefore, you will need a lot of fast-charging stations in the Indian context, with Indian vehicles that they are talking about today. And therefore, you may have to have very innovative solutions of including battery swaps and also fast-electric charging. And the number of stations will also again depend on density profile of how these cars have to fetch from where to where because the largest volume will come from public transportation as also from commercial vehicles. So I thought I'll just give you a bit run up to what will influence the numbers.

Moderator: Thank you. We have a follow-up question from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: I probably missed one of the questions on the non-core assets sale. What is the status now? The money that was expected from Arutmin as well and the cross-holdings which had to be reduced. I think in the analyst meet you clearly mentioned that this year you are looking at all of these options very seriously. So if you can provide us with the status update? And lastly on Mundra, any resolution in site now? I think we read that Gujarat government said initially that they don't want to buy and then there are being various hiccups from their side?

Ramesh Subramanyam: So onto your first question, Abhishek, on non-core sale, we continue to maintain what we have said earlier. This is very top priority for us. Work is on, intense work is on. That's all I can say. So you will see the results sooner or later, not so distant. What is the other question you asked? One is...

Abhishek Puri: About the Arutmin sale.

Ramesh Subramanyam: Arutmin sale. So I think we are seeing some improvement. We will see some trickling of the consideration coming in. It will be slow as we have maintained earlier. But we expect that it will pick up pace in the next 6 to 12 months in terms of the speed with which it starts coming in. In terms of the Gujarat, the CGPL issue, I think discussions are still going on. I don't think we have reached a stage where we can actually say that exactly which direction it is going. I think a lot of work is being done on trying to see what kind of a structure or solution we would

work. And I think it is that. Only that much we can talk about it because there's nothing more than that to be disclosed at this point of time.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Anil Sardana for closing comments. Thank you and over to you, sir.

Anil Kumar Sardana: So thank you so much for joining the Q2 FY '18 conference. And as I've been mentioning before, if you have any more questions, you could always get those across to Mr. Kasturi, Ajay Bagri, and we will be pleased to answer those with details as you may wish to seek. So once again thank you and look forward to you're joining us for Q3 FY '18 conference. Till then, goodbye.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Tata Power Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.