



“SJVN Q3 FY11 Earnings Conference Call”

February 2, 2011



**MODERATORS: MR. H K SHARMA - CHIEF MANAGING DIRECTOR, SJVN LIMITED.
MR. A S BINDRA - DIRECTOR FINANCE, SJVN LIMITED
MR. K S MALHOTRA - GM F&A, SJVN LIMITED
MR. PSR MURTHY - COMPANY SECRETARY, SJVN LIMITED**



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Moderator Ladies and gentlemen good day and welcome to the SJVN Q3 FY11 earnings conference call hosted by, JM Financial Institutional Securities Private Ltd. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing * and then 0 on your touch-tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Abhishek Anand from JM Financial, please go ahead sir.

Abhishek Anand Thank you, good afternoon everyone on behalf of JM Financial welcome you all to SJVN Third Quarter Conference Call. To represent the company we have with us senior management of SJVN comprising Mr. HK Sharma – CMD, Mr. A S Bindra – Director Finance, Mr. K S Malhotra – GM F&A and Mr. PSR Murthy – Company Secretary. We will start off with the brief overview of company results followed by Q&A session. Over to you sir.

H K Sharma Yes, this is H K Sharma, CMD SJVN. Now this quarter ending December there has been increase of 7% in the sales and 40% increase in the other income, so total income has increased from 395 crores last year to 432 crores this year, which is an increase of 9.32% and Profit After Tax has increased by 9.68% against 185.46 for the quarter. The Profit After Tax is 191.50 and expenditure side of course there has been increase by 13% against 185.67 of last year, expenditure during this year is 211.13 crores.

Speaker 2.17 Mainly the expenditure had been increased on account of depreciation which we have capitalized from the last year. 54.82 crore had been additionally capitalized from back period because of that 12.09 crores depreciation has been increased and we have given some interest also on our claim for last year so mainly expenditure has been increased on account of two reasons other the expenditure has not increased, so our performance is better than the corresponding quarter of the December 2009. And moreover our generation has also been increased

A. S. Bindra Last year the generation was 1097 million units, whereas this year it was 1371 it was increase of about 200 million or 300 million units more. This year the third quarter, the inflows were better than the last year, so that is why there has been increase and similarly the net saleable energy also increased from 958 last year to 1195 this year. Any questions on this?

Moderator Sir, would you like to start the question and answer session now?

A. S. Bindra Yes.

Moderator Or would you like to complete the presentation before we get the questions sir? Mr. Abhishek Anand, should we start the question and answer session?



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- Abhishek Anand** I think we can start the question and answer session.
- Moderator** Okay thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. Anyone who has a question may press * and 1 at this time. Mr. Anand would you like to ask any questions before the others join?
- Abhishek Anand** Yes, sir just a couple from my side. Could you give us a status update on Rampur project?
- H K Sharma** This Rampur project as we told during our earlier discussions also during the IPO, it all poised for September 2013 commissioning schedule, although there was some problem in the tunnels but in the last four-five months we have really inconsistent in the progress and asking rate has been more than what was required as per schedule and all is poised for that and even World Bank has now upgraded our gradings and they are also fully satisfied with the progress at site.
- Abhishek Anand** Sir, just in terms of progress update, where are we at particular stage of development, could you share some information in that?
- H K Sharma** In fact it will be very difficult because it is a very long process of expressing but definitely the work on all the fronts as per the schedule which has been agreed with the agency, which has been the World Bank, with the CEA., with Ministry of Power we are going ahead as per that and there has been no slippage at all in that and we are trying to further compress it but before we really commit that officially in house, it probably for the time being September 2013 schedule we are aiming at and the main work is the tunnel work in which excavation is going on, heading excavation, branching and lining in two three edges, where the breakthrough is already there, where we are doing the lining and in the other areas, the critical areas the heading is going on despite the poor geology as we are going ahead with that and a consistent progress we are receiving in the power house also. There was a collapse of a wall but this has been now overcome and in fact five out of six these draft tubes have been opened and the work is going on in that front. So, all are going on well and search of lining we are just starting from the bottom and it will be all as per the schedule which we have submitted. In fact there are so many activities going on, it will be really difficult for someone to really understand that but in the nutshell we can say that schedule which has been made here adhering to that.
- Abhishek Anand** Okay, sir one more thing, regarding the competitive bidding. Has hydro sector being included in the competitive bidding?
- H K Sharma** No, this has not been in fact, so far of course it was to start from first, but as of now it is not in the competitive basis.
- Abhishek Anand** Has there been any official communication with regards to this?



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- H K Sharma** Hello.
- Abhishek Anand** Has there been any official communication?
- H K Sharma** Official was not, in fact official communication for implementing is not there, it is for the other projects.
- Abhishek Anand** Okay fine, thank you sir.
- Moderator** Thank you Mr. Anand. Our next question is from the line of Mr. Prashant Kothari from ICICI Prudential, please go ahead.
- Prashant Kothari** Sir, couple of questions, one is can you give us some breakup of how much incentives we have earned during the quarter and what is the outlook on that really considering that there was some change also in CERC guidelines on how that incentive should be calculated. So, have we started accounting for that same or will we do it in future?
- A. S. Bindra** Well Mr. Kothari, we give incentives in two ways, one is achievement of the capacity index and other is energy. the capacity index we are at present, you know 97% we have achieved against the target of 82%. So, for 50% of AFC we will be getting if we achieve 82% target, we are achieving 97%, proportionality we are getting that incentive, but right now I do not have the figures, but as far as energy generation goes our Design energy is 6612 million units and we crossed 6612 million units after that whatever energy we are going to generate, present as on date, we have already crossed that.
- Speaker 9.45** Now, another thing which you asked was that this incentive is proportionately build also and collected also from the beneficiaries, it is not at the end of the year, in fact on the proportionate basis there is a formula already existing with which we are already charging the incentives as well as the UI charges whatever we are getting from the beneficiaries.
- Prashant Kothari** Okay sir, what is that that you have build in this quarter end, what is appearing in your P&L form of incentive, how much amount would that be?
- Speaker 10.33** So, I think incentives separately has not been mentioned here because it is part of the income but if you compare last year's you must be knowing that last year we earned an incentive of about Rs.180 crore, which was also inbuilt during the billing itself. So, we are having an increase of about 9% over the last year.
- Prashant Kothari** 9% and this is for the nine months or for the quarter sir?
- A. S. Bindra** For the quarter only I am talking.



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- Prashant Kothari** And sir, are you seeing some impact of low UI rates also on our incentives?
- A. S. Bindra** No, UI in fact we earn only depending upon the frequency and daily changes so overall we have to see. Last year of course because of UI charges here about 32 crores, so this year it may not be that, yes it will have some impact on that but it will be known by end of the year.
- Prashant Kothari** Like how much UI charges would have earned for the first nine months sir?
- A. S. Bindra** No, I think separately I do not have the figure, but may be, yes it is lower by 4.42 crores.
- Prashant Kothari** And this is for the nine months or for the quarter sir?
- A. S. Bindra** This is for the quarter.
- Prashant Kothari** Okay and sir, one more thing I asked was about this change in AFC calculation, there were some new CERC guideline, have we started accounting?
- A. S. Bindra** This accounting is from the why CERC guideline which was 15.5% return.
- Prashant Kothari** Sir, I am saying in the recent months there was another guideline that was brought out by CERC and as per that 50% of AFC -?
- A. S. Bindra** Yes that we are doing, yes 50% of AFC towards the energy charges and 50% towards the capacity index charges that we are doing. Even last year it was also applicable, same is this year also.
- Prashant Kothari** No, I am saying that 50% was changed to some 75% or so?
- A. S. Bindra** No.
- Prashant Kothari** There was some change in the incentive formula sir, I am not exactly remembering that but there was some change in the formula with CERC proposed, so I just wanted to know whether that has been implemented?
- A. S. Bindra** No, I think you know I will just tell you that now into two part tariff there are only two things, one is the capacity charges, one there is the energy charges. Once we touch design energy we get our full annual fixed charges and once we exceed the design energy then we are paid at the rate of 80 paisa per unit which is total is an incentive and similarly for the capacity charges, now 50% once we achieve 82%, we get our entire 50% annual fixed charges. Now, since we have got 97%, so 15% that in proportionate to the annual fixed charges we get that is the major chunk of the incentive, which comes to almost about Rs.80-Rs.90 crore, so which we are getting and we will continue to do that.



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- Prashant Kothari** No, I am saying CERC proposed a new formula for that capacity charge itself?
- A. S. Bindra** No, it is not applicable as yet, may be they must be proposing but I dot not have analysis of that may be, this is what is presently observed by all producers.
- Prashant Kothari** Okay and sir can you give me what is the cash situation, I think how much cash is there in the balance sheet, how much debt is there and how much money we have invested in Rampur project?
- A. S. Bindra** About 1200 crores we have invested in Rampur.
- Prashant Kothari** Okay.
- A. S. Bindra** Just hold on, we will tell you the debt.
- Prashant Kothari** Yes.
- A. S. Bindra** Now, just to give you a figure 125 crores incentive we have earned. And this 1178 crores we have spent on Rampur and out of that 670 is the loan from the World Bank.
- Prashant Kothari** Okay. And sir how much cash do we have on the balance sheet?
- A. S. Bindra** It is about 1830 crores approximate as on 31st.
- Prashant Kothari** And bonds?
- A. S. Bindra** We are keeping funds in FDR only with the bankers.
- Prashant Kothari** Okay.
- PSR Murthy** Last year it was 1437 now it is 1834.
- Prashant Kothari** Okay and CWIP should be about 1200 crores which is there in the Rampur project?
- A. S. Bindra** Yes.
- Prashant Kothari** And sir is there any development on other projects that we are thinking of one was somewhere outside also, I think in Kazakhstan or some other places, any development on those things?
- H K Sharma** We have got in Bhutan and Nepal.
- A. S. Bindra** In fact Bhutan - Nepal, now Nepal of course the board has cleared one thing that is for making the approach, which we are now starting very soon, but before that legally enforceable



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agreement has to be signed, now somehow in the Nepal the political situation is very fluid so they are not able to really finalize those two times, they had fixed a meeting but they postponed it. So, we are expecting very soon that by March we will enter into that and next year we will spend the money on approach roads and we will start the project. But other projects within India you can say if they are in the environment and forest clearances are being obtained or of course DPRs have been submitted other things are under avail and acquisition is complete. Now, these are all under such clearances.

Prashant Kothari

Sir, which is the first project in India that we can expect to start?

A. S. Bindra

I think the Devsari project in Uttarakhand will be the first and Dhaulasidh in Himachal, of course we were expecting Luhri also but they have linked, the state government has ranged it with the transmission lines forest clearance, so we will see but I think Devsari project and Arun III projects would start.

Prashant Kothari

Devsari and Arun III?

A. S. Bindra

Yes.

Prashant Kothari

Not Dhaulasidh?

A. S. Bindra

Yes, it is a small project may be, because right now Ministry of Environment and Forest is asking for the comprehensive river basin study for all projects. Of course earlier it was only for the projects specific which we were preparing and giving but they want additional studies, so let us see once we submit the papers then we will come to know what do they really require?

Prashant Kothari

And we will need lot of funding for Arun III sir, if we really start off that it will be more like 5000 crore kind of CapEx right?

A. S. Bindra

Yes, it is about Rs.4,000 crores and including transmission line, it will be 5,000 so we are tying up with, we have invited the expression of interest from various banks, we have to finalize that but before that definitely the DPR has been now submitted, now received because March is a date for an EPR submission to the CA and to the government of Nepal. Once we have that then we will be heading towards that. And of course needless to say that equity portion we can fund ourselves which we will be doing ourselves of course the debt portion we have to tie up.

Prashant Kothari

And sir Nathpa Jhakri project there was some 400 crores or so of amount which was yet to be approved as equity for the project, have we received its approval sir?

A. S. Bindra

Yes in fact there was no such issue now right now, now of course it has been issues we are filing the revised petition in another three-four days.



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- Prashant Kothari** We are filing it in three-four days?
- A. S. Bindra** Yes.
- Prashant Kothari** Okay so we are yet to apply for it and therefore approval would obviously come later?
- A. S. Bindra** Approval is there already, it was within the power so that has been approved and we are going ahead with that.
- Prashant Kothari** Okay, okay sir thank you.
- A. S. Bindra** Thanks.
- Moderator** Thank you Mr. Kothari. The next question is from the line of Avinash Agarwal from Sundaram Mutual Fund, please go ahead.
- Avinash Agarwal** Good afternoon sir. Sir, I just want to know is there any progress on the Georgian acquisition which was there earlier in our radar?
- H K Sharma** What is that pardon, please come again?
- Avinash Agarwal** Acquisition 30% there was in the media that we are planning to acquire 30% stake in a hydro project in Georgia?
- H K Sharma** No, I think there was a proposal but somehow it was because we are still making the DPR, in fact we wanted to be part of the DPR but the board has not really approved that, so once the DPR is in place, we will revisit it and then we will try to get it. It is no doubt a good project but as per the policy or the Government of India we have to go there. Right now of course, we had not really pressed it hard because the DPR was not there. So, they are coming up with DPR.
- Avinash Agarwal** Okay, so why was that such a delay in the project, I believe that project has been actually planned about 20-30 years back so is there some issue in that project sir?
- H K Sharma** No, there is no issue only thing is that the Government of India undertaking joining hands with the private ones that to in the minority that is an issue which has really not been addressed at the board and at ministry level, of course we thought that that will be for the benefit of the company for the growth of the organization we can go into minority but then board has different views, different members have different views they say that may be in case we are having a majority shareholder then it will be okay, but those fellows are not really willing to give the majority share to us, they want that okay, you can join hands as a minority shareholders.



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Avinash Agarwal Okay, I was asking the plant level sir-

H K Sharma What plant?

Avinash Agarwal The Georgian plant which has been planned, I believe it is quite an old plan actually.

H K Sharma No, in fact this was the project which was stopped somewhere in 1979-1980 because of some reasons by now it is all poised for starting, the project about 35% work has been done on this project that is on the major civil works. No, plan that had come that was not even ordered, of course in case we have to take up that work definitely it will be then the balance work whatever and according to that the cost and all will be-

Avinash Agarwal Okay, and sir we were also looking at other renewable energies like wind?

H K Sharma Wind of course we are doing that, wind 50 megawatts project we have already finalized, the consultant is making the documents and we shall be inviting the tenders by March and then may be by June we shall award it so it will be at four potential sites, either of the four potential sites either in Gujarat, Rajasthan, MP or Chennai that in Tamil Nadu in these four areas it will be suggested, so we will finalize somehow, but 50 megawatts we are planning in may be 18 to 24 months' time.

Avinash Agarwal Okay and any plans of solar sir, under the National Solar Mission, are we planning to bid for those projects?

H K Sharma Hello, we could not get you, what is that, any?

Avinash Agarwal Under the National Solar Mission are we planning to bid for solar projects as well?

H K Sharma Yes, in fact board was not much convinced about it, we have an investment committee which will be meeting shortly for solar and trading of course we are very keen on joining these two and obtaining the license for this. So, we shall be entering but let us first to convince the board because somehow everybody has different views, so which is not yet through, but we have it in our vision.

Avinash Agarwal Trading of power or coal sir?

H K Sharma Trading of our own power or may be trading license we wanted to take and of course the solar, these two things we have to start.

Avinash Agarwal Okay sir thank you.

H K Sharma Thank you.



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- Moderator** Thank you Mr. Agarwal. Next question is from the line of Hairsh Bihani from India Bulls Securities, please go ahead.
- Hairsh Bihani** Hello, good afternoon sir.
- H K Sharma** Yes, good afternoon.
- Hairsh Bihani** Sorry, sir I joined the call late, I just wanted to understand have we heard from the ministry of power on extending this hydro policy benefit on the regulated basis till 2016?
- H K Sharma** At least for the time being they have allowed us on the cost plus basis till further orders, otherwise there was to be competition from 1st of January, but further we have not been in fact that will prevail and existing system we will continue.
- Hairsh Bihani** So, has it being decided or we are hearing something from the government over this particular issue?
- H K Sharma** No yet up to when it is not decided, but for the time being it will continue.
- Hairsh Bihani** Okay fair enough and sir my second question is, in case are we also planning to in any incremental projects we are planning to increase the equity contribution from more than 30% say to about 40%?
- H K Sharma** No, I think I was this project which we have in hand it is already, we have equity participation overall and in which 30% is from Government of Himachal Pradesh and we are going ahead with that, 30-70 is the ratio, this is what we will continue.
- Hairsh Bihani** Okay thank you so much sir.
- H K Sharma** Thank you.
- Moderator** Thank you Mr. Bihani. The next question is from the line of Mr. Rakesh Vyas from HDFC Mutual Fund, please go ahead.
- Rakesh Vyas** Hi, good afternoon sir.
- H K Sharma** Good afternoon.
- Rakesh Vyas** Sir, can you just give me what is the total generation in the first nine months for the year?
- H K Sharma** Total?
- Rakesh Vyas** Generation.



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- H K Sharma** Till today we have got, now you want for nine months?
- Rakesh Vyas** Yes sir.
- H K Sharma** In fact 6,649, okay so in nine months if you see 6,402 that is the actual against the MOU target of 6,126.
- Rakesh Vyas** Okay and what was the last full year sir in FY10?
- H K Sharma** FY10 was 7,018 and we are likely to touch that or may be we might exceed that.
- Rakesh Vyas** Okay and sir secondly, can you just tell me what is the new regulated equity on the Naptha Jhakri?
- H K Sharma** Naptha Jhakri it is closer, now since it is a closed project 50-50 was there.
- A. S. Bindra** You know it was 50-50 up to the investments made in May 2010 that was date of commercial generation and after that any equity that is 70-30.
- Rakesh Vyas** Okay, sir this 400 crores which was to be considered, so after that what is the total equity on which we are earning 15.5%?
- H K Sharma** See, it is not changed that is a normal equity on which we will be getting the return on equity by way of tariffs. Our project cost, which was approved by CERC that was to the tune of about 8,000 crores, 8990 crore to be exact, but now we are again submitting our tariff petition with an equity of 8472, total project cost and up to 8000 crores our equity was 50-50 and on the balance 472 crores will be getting equity 30% and 30% of 475 and 50% of balance, on that we will be getting 15.5% as return on equity.
- Rakesh Vyas** Okay, got it sir. And sir lastly, this CERC was to come out with the regulation on allowing higher ROE or higher incentive for hydro plants specially, have you heard anything on that or?
- H K Sharma** It is already applicable from 1st April, 2009, that is 15.5% against earlier of 14%, so that is already existing and that will continue, further we have not yet to received anything from CERC.
- Rakesh Vyas** Because earlier I think Prashant was trying to ask a new incentive formula.
- H K Sharma** Incentive formula earlier was not 50-50, earlier it was different ratio, it was may be 70% or 75% for the capacity index and 30% for that, so it was revised to 50-50.
- Rakesh Vyas** Okay so post tariff regulation, which came out there has been no change as such in the last one-and-a-half year?



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- H K Sharma** Yes.
- Rakesh Vyas** Okay, thank you so much sir. That is it from my side.
- H K Sharma** Thank you.
- Moderator** Thank you Mr. Vyas. At this time there are no further questions from the participants. Mr. Anand would you like to add any comments?
- Abhishek Anand** Yes, I would like to thank the management for taking time out and addressing the investors' queries and I would also like to thank all the participants for attending the conference call. Thank you so much.
- H K Sharma** Thank you.
- A. S. Bindra** Thank you.
- Moderator** On behalf of JM Financial Institutional Securities Private Ltd that concludes this conference. Thank you for joining us, you may now disconnect your lines.