



**“SJVN Limited Q1 FY 11 Earnings Conference Call”**  
**July 30, 2010**



**MODERATORS: MR. H. K. SHARMA – CHAIRMAN & MANAGING  
DIRECTOR, SJVN LIMITED  
MR. MURTHY – COMPANY SECRETARY, SJVN LIMITED  
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MARKET SERVICES LTD**



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- Moderator** Ladies and gentlemen, good evening and welcome to the SJVN Q1 FY 11 Earnings Conference Call hosted by IDBI Capital Markets Services Limited. As a reminder for the duration of this conference all participant 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. Should you need assistance during the conference please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Piyush Ningaonkar of IDBI Capital Market Services Ltd. Thank you and over to you sir.
- Piyush Ningaonkar** Good evening ladies & gentlemen. On behalf of IDBI Capital, I welcome you all at the post result conference call of SJVN for the quarter ended June 2010. To represent the company we have the senior management team comprising of Mr. H. K. Sharma – Chairman and Managing Director, Mr. Murti – Company Secretary and GM – Finance, Mr. K. S. Malhotra. We will start of with this overview of Q1 FY11 results followed by company's outlook and finally the Q&A session, so over to you sir.
- H. K. Sharma** Yes, good evening. I think the first quarter the growth has been 7% more than the first quarter of last year, so we had a net profit of about Rs. 290 crores against the Rs. 285 crores which we had last year. An earning per share has been marginally increased from 69 paise to 70 paise and earning for the full year 2009/2010 was Rs. 2.37. So you can say that as compared to last year, first of all let me tell you about production which we had been doing from the 1500 Megawatts in Nathpa Jhakri Project and we are about 269 million units more than the corresponding year last year. This year we are having 2424 million units against what we had last year as 2153 million units. So that way you can say this year also we are expecting the repeat of what we had last year. Yes, questions can be put, we will reply to that.
- Moderator** Thank you. Ladies and gentlemen we will now begin the question and answer session. At this time anyone who wishes to ask a question may press \* and 1 on their touchtone 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. The first question is from the line of Aruna Bharti from Pari Washington, please go ahead.
- Aruna Bharti** Hello. Could you just split the 524 crores of revenue into capacity charges as well as energy charges?
- H. K. Sharma** In fact the capacity charges, in fact on average is the end of the year but right now, proportionately we are charging as per the flat rate of Rs. 2.35. But at the end of the year when we average it out for the capacity charges that is average in the last quarter. That is particularly in the last quarter i.e. 31<sup>st</sup> of March we have ridge it out.



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- Aruna Bharti** Okay and what is your current energy charge rate actually? What is your current ECR, the energy charge rate rupees per unit?
- H. K. Sharma** It is Rs. 2.35.
- Aruna Bharti** No, that is including capacity charges, right.
- H. K. Sharma** Yes.
- Aruna Bharti** Okay, now what I am asking about is energy charge rate excluding capacity charges.
- H. K. Sharma** No, I will just tell you that first of all you must be knowing that this is a 2 part 50% is towards the energy charges and 50% towards the capacity charges. This year the annual fixed charges are fixed according to that 50% we are entitled, so we are touching 82% capacity index and balance 50% we get when we touch the design energy. These all are fixed for the annual. Now, let us say annual energy generation is 6612, now once we touch that so then we are entitled for the entire 50% annual fixed charges. Now annual fixed charges is Rs. 1528 crore. And now Rs. 764 crores we will be getting once we touch the normative capacity index of 82%. And balance Rs. 764 we will get once we touch Rs. 6612 million units that is the annual design energy. So once we exceed these two parameters then the proportionate incentive is given.
- K. S. Malhotra** And the incentive is given on the capacity charges exactly proportionate and for the additional energy generation we get the secondary charges of 80 paise per unit.
- Aruna Bharti** Okay that is fine. That we are aware of that. What is the current debt outstanding on Nathpa Jhakri project, could you just give us the numbers?
- H. K. Sharma** I will just tell you because it is maybe about 1100 crores or so. About 1100 crores is the net outstanding only from the Nathpa Jhakri project.
- Aruna Bharti** Okay, and what is the outstanding on the balanced work-in progress projects?
- H. K. Sharma** That is another about Rs. 500 crores. Overall we are having about 1600 crores as a debt.
- Aruna Bharti** And what is your cash and bank balance on hand currently? What is your cash in the books currently?
- H. K. Sharma** It is 1700 crores plus.
- Aruna Bharti** Okay, and just question sir, coming back to the capacity charges you levy these capacity charges on a monthly basis, right to your customers.



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- K. S. Malhotra** Yes, as chairman has told you, we are billing on the basis of Rs. 2.35 per unit. At the end of the year we square it up. It is averaged out at the end of the year. Out of the 1528 crores which is the AFC, 50% we will be getting on account of capacity but in the current months we are charging on the basis of Rs. 2.35 on an average basis.
- Aruna Bharti** Okay, that is fine.
- Participant** Could you give us an update on the Rampur project please?
- H. K. Sharma** Yes, Rampur Project the construction is in full swing. Now in a particular reach where the critical reach the HRD has reached tunnel on which the geology on two phases are quite bad. Other components are in control, only that component is critical which we are using all the suggestions given by the world renowned consultants or our World Bank team or our own technical experts and we are getting a progress of about now 100 meters from both these places and we are all lined up in fact for the commissioning of the project by September 2013.
- Participant** Okay. And so based on what you see right now that timeline still holds good?
- Mr. Murti** Yes, yes it holds good, at least. It holds good. Maybe in six months we will again review and we are expecting to increase it by the Jet Grouting method also. I think but Jet Grouting so far we have tried in last two-three days that has not been successful because the material is not groutable. But even without that method also we are trying our best to use the twin cutters and the **short kit 8.40** and SFRS for getting the good progress.
- Participant** Okay fair enough. And last question is can you give us some color on this Georgia Project? Where exactly in Georgia is this? Could you tell us the rationale for....
- H. K. Sharma** You see Georgia project was under discussion in the board. Today also we had the discussion in the board. In fact, we are sending the proposal to the Government of India for approval. In fact, this is a joining hands with a private developer who has bagged this project. First of all we have to make a detailed DPR for that and for making the DPR we wanted to enter into a small MoU with them or even for entering that MoU we have to get the government's approval. Board had raised certain observations which we are responding to them, soon we will get back. In fact overall, yesterday otherwise I can tell you that Georgian embassy has been opened in New Delhi, so his Excellency Ambassador of Georgia had convened a meeting to CII, we attended that. There is a lot of scope there. We are exploring all possibilities. At least with this privately joint venture we are trying hard and we might succeed really.
- Participant** Now, this dam will be in territory that is controlled by Georgia or it is in Georgian territory that is controlled by Russia?



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- H. K. Sharma** In Georgia itself, okay earlier Russians, so now this project was half built, the Khudoni project it is 628 megawatt but it was abandoned long back maybe in 1980s it was abandoned because of certain reasons and the balance work we have to carry out and otherwise our team visited there and they found it very attractive project and it is worth taking. So we are trying our best to get this.
- Participant** No the question that I am asking, is this dam in the portion of Georgia that is controlled by the Georgian government or there is a portion of Georgia that is controlled by the Russian government?
- H. K. Sharma** It is in Georgia, it is in Georgian control.
- Participant** It is in Georgian control, and you will have what kind of stake in this project?
- H. K. Sharma** Maybe to the extent of 30%.
- Participant** And what is the investment that you see both equity as well debt for your share?
- H. K. Sharma** In fact, equity in case it is the proposal it is through, we might invest something like Rs. 350 crores in this because the total cost is coming something like Rs. 4000 crore of out of which about Rs. 1200 will be equity and 30% of that means about Rs. 350 crore will be our contribution.
- Aruna Bharti** I just have one question at least. Instead of investing this 350 crores money in Georgia, why do not you invest this money in India itself? There are so many hydroelectric power potential is being talked about something if you will keep talking about something like 50,000 megawatt is potential in this country and so on and so forth.
- H. K. Sharma** See you must be aware that here in India, water in being the states, those state governments are allocating the project as per their own. If we make the project in India and it is a government of India undertaking we have to be guided by the Government of India guidelines, which does not allow us to more than 12% of free power to the home state. We are a regulated ones. So definitely all these hill states who are giving these project to the private developers because they are not guided by the guidelines. They are not regulated ones, they are all merchant plants. They are offering more than benefits to the state governments and state governments in fact are bent more towards the private sector because they offer them the better returns like 18% free power and 30% free power and ultimately handing over projects back to them after 35 or 40 years. This we cannot do as a Government of India undertaking. We have a constraint in that at least for the time being. So that is the reason. Now, we are approaching all the state governments particularly you know the hydropotential is only in the Himalayan states which are Arunachal Pradesh, Sikkim, Himachal, and J&K. Yeah, we have approached all these governments to allocate us the project but the terms and conditions on which they offer us so



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high that at least the CPSUs cannot do that project unless Government of India approves that. For example, that we cannot pay them the upfront premium which they demand Rs. 20 lakh to Rs. 50 lakh per megawatt and then getting more free power, like first 12 years maybe 18% free power and then next 12 years a 30% free power. So these all we cannot really agree to. This is the main reason. Now hear in Georgia let me tell you that this is the project which will be on the BOO basis. This is the build operated own and this is not much royalty which is to be paid, even in Nepal where we are taking that project that is a merchant power project, we have offered 22% free power to Government of Nepal that will be a merchant power plant and there also we are paying the royalty. So at least from that angle let me tell you that this project in Georgia will be very good.

**Participant** What is the kind of per unit cost do you think you can, per unit price you think you will be able to generate at Georgia?

**H. K. Sharma** Yeah, I will tell you. That will be just tentatively we have worked out on whatever data we had in fact the DPR was made, Detailed Project Report, which is available, it is way back 1979 DPR it has to be updated which will require some cost to go in that, only for that we wanted that let us have a MoU first and then we come back to board for the final investment decision. You know tentatively I can tell it will cost about 6 cents there, the production from this project and yesterday in fact we have inquired right now Georgia is in a power surplus during the main season and maybe deficit during the winter. So during power surplus they export the power to Turkey and Russia. So that is sold at about 8 cents. So definitely this is what is the thing that even if you compare these terms and conditions with the Indian States probably we find it much easier.

**Participant** Okay. And then for the local sale to within Georgia, what is the price per unit that they are able to realize?

**H. K. Sharma** In fact that also depends, it is market driven. Although regulatory is there but what apparently looks is it is about 6 cents should be same price, which should be the production cost there.

**Aruna Bharti** Okay, fine. That is helpful. Just one quick question 524 crores of revenue, does this include any incentive payment?

**H. K. Sharma** No, this does not include right now.

**Aruna Bharti** Okay and the incentive will typically come in the last quarter.

**H. K. Sharma** Yes, yes it will come in the last quarter.

**Aruna Bharti** Okay, fine. That is fine. That is all from our side. Thank you.



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- H. K. Sharma** Thank you.
- Moderator** Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Funds, please go ahead.
- Rakesh Vyas** Hello sir. Sir, actually a couple of questions. First I just wanted to know is there UI income booked in the current quarter.
- H. K. Sharma** I will have to find out this. Unscheduled interrupted charges? Right now I do not have the figures.
- Rakesh Vyas** Sure no problem. And secondly sir, we have been hitting that government is planning to propose the differential tariff regime for the peak and off peak power, so just wanted to understand your view on the same and secondly if that is the case be then would it be applicable for the existing projects also?
- H. K. Sharma** I will just tell you because this will be exclusively for the new projects. In fact for the all old operating projects this would not be applicable because PPAs and everything has already been frozen. CCA has given approval according to that, so there is no question. At least the existing plants which are already operating or which are under construction, obviously it would not have any effect. Yes, for the future ones, where they will make the DPR keeping in view all these concentrations and maybe sometimes they have to justify you can the unviable projects as viable projects, probably they might think of doing so.
- Rakesh Vyas** Okay. But that will be determined by the regulator, the prices. That will not be market determined prices I guess.
- H. K. Sharma** It will be determined by the regulator. As in the even now, you see when UI charges we are getting, that is the upper cap is 1% so of that only we are trying to see that sometimes we give the 15 minutes schedule and according to the market value sometimes we say that okay, we do not supply on a particular where it is a less UI. We give them some penalties whereas in the higher ones, it is an overall calculation which is made. In fact that is how we earn on the UI, kind of 1%.
- Rakesh Vyas** But sir from 1<sup>st</sup> January, 2011, we probably, as per the initial thought, we are probably moving to that competitive bidding regime, so in that case no new projects can be appraised by CERC under the regulated regime, so I am just slightly confused on that front.
- H. K. Sharma** No, I think I will just explain, there they have allowed us that, in fact all the CPSEs as I told you just about few minutes back, that state governments are gaining more projects for private developers because they are extending so many relieves which we cannot give otherwise. So even government is thinking that yes, that all should be allowed to give the same, so the level



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playing field are there. Now, I do not know whether the tariff based bidding can be done in the hydropower or not. At least you would be allowed this thing and we shall be allowed to operate the plant, 40% as a merchant. So that at least 60% holding will be through the regulator and 40% will be the market driven raise through which we can recover our other benefits which we extend to the states to bag the project.

**Rakesh Vyas** Sure. So if that differential tariff is allowed then within that 60% which regulator needs to determine the tariff you could get different tariff for the peak and off-peak.

**H. K. Sharma** Yes, yes, the DPR will be only submitted and approved according to that.

**Rakesh Vyas** Okay, great sir. And sir secondly you mentioned that there are no incentives booked in the current quarter, so apart from UI there would not be anything else. Is that correct sir?

**H. K. Sharma** There would not be any.

**Rakesh Vyas** Okay. Thank you sir. Thanks a lot.

**Moderator:** Thank you. The next question is a follow-up from the line of Aruna Bharti from Pari Washington, please go ahead.

**Aruna Bharti:** Just a couple of questions actually. What is your unit generation target for the full year?

**H. K. Sharma** Full year 6700 million units is the target for the excellent rating. Now, we have entered into a MoU with Government of India, Ministry of Power for 6700 million units excellent rating, twice the design energy 6612. Although we were insisting them to treat this as an excellent target but still they said no no, since you have done well in the past so they increased our target from 6612 to 6700 million units.

**Aruna Bharti** Okay that is fine, that is helpful. And what is your CAPEX plan actually for this year for 2011 and 2012?

**H. K. Sharma** About Rs. 300 crores we will be spending on the Rampur project which is under full construction that is all. Other projects are very minor, which cannot be unless the construction starts of course. That will start in 2012.

**Aruna Bharti:** Okay. And for 2012 how much are you going to spend in Rampur?

**H. K. Sharma** We will spend about I think so far we have spent about 1000 crores so balance 1000 crores will be in the three years so 300-350 crores we will be spending every year.

**Aruna Bharti** Okay that is fine.





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**Participant** And Rampur will be completely eligible for carbon credits is that right?

**H. K. Sharma** Yeah, in fact validators have come already we have applied for that. So that is under final stages.

**Participant** And how about Natpha Jhakri, are you eligible there?

**H. K. Sharma** No, we are not eligible there. It is too large a project and then we had not filled any at that time it was not in the protocol and all was not there, so. We had applied through World Bank. World Bank is our consultants for the Rampur project and validation is going on right now.

**Aruna Bharti** Okay. Thank you very much.

**H. K. Sharma** Alright. Thank you.

**Moderator:** Thank you. The next question is a follow-up from the line of Rakesh Vyas from HDFC Mutual Fund, please go ahead.

**Rakesh Vyas** Hello sir. Sir, this question is on the taxation part. Currently I think we would be billing based on the 17% MAT rate, is it correct?

**K. S. Malhotra** All our equity we are getting a return of 15.5% which will be grossed up with 18% MAT.

**Rakesh Vyas** But the current billing is happening at 18% or 15% sir?

**K. S. Malhotra** 15% because the MAT rate has been revised from 15 to 18.

**Rakesh Vyas** Okay, so it is 18. And sir what would be the effective tax rate for us for the year?

**K. S. Malhotra** For the year we are paying MAT only.

**Rakesh Vyas** But after adjusting for the deferred tax?

**K. S. Malhotra** We are paying MAT.

**Rakesh Vyas:** We will pay net on. Okay right. Thank you sir.

**Moderator:** Thank you.

**Piyush Ningaonkar** Thank you all. I would like to thank SJVN management for giving us a chance to host the con call and also to all the participants. Thank you very much.



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**Moderator**

Thank you gentlemen of the management. Ladies and gentlemen on behalf of IDBI Capital Market Services Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect.