



“SJVN Limited Q2 FY2018 Earnings
Conference Call”

November 13, 2017



Management:

Mr. R.N. Mishra - Chairman & Managing Director - SJVN Limited

Mr. A.S. Bindra - Director (Finance) - SJVN Limited

Analyst:

Mr. Deepak Agrawala - Elara Securities Private Limited



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Moderator: Good day ladies and gentlemen and welcome to the SJVN Earnings Conference Call hosted by Elara Securities Private Limited. 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. Should you need assistance during this conference call, you may signal an operator by pressing “*” 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. Deepak Agrawala from Elara Securities Private Limited. Thank you and over to you Sir!

Deepak Agrawala: Thanks Mallika. Good afternoon everyone. On behalf of Elara Securities, we welcome you all for the Q2 and H1 FY2018 conference call of SJVN Limited. I take this opportunity to welcome the management of SJVN represented by Mr. R.N. Mishra, Chairman & Managing Director, Mr. A.S. Bindra, Director (Finance) and their team. We will begin the call with a brief overview by the management followed by Q&A session. Apologies for starting the call about 10 minutes late. I will now hand over the call to Mr. Mishra for his opening remarks. Over to you Sir!

R.N. Mishra: Good afternoon Deepak and good afternoon to everybody who are on this conference call. I welcome you all. During this quarter, i.e. Q2 2018, the revenue from operations has been Rs.726 Crores as against Q2 of 2017 Rs.848.60 Crores, which means there is a decrease of Rs.121.37 Crores, which is approximately 14.30% reduction. The gross total income during this quarter is Rs.809.61 Crores as compared to last year’s same quarter Rs.944.50 Crores showing a reduction of Rs.34.89 Crores, i.e. 14.2% decrease.

The profit before tax during this quarter Q2 2018 is Rs.463.86 Crores as against same quarter last year Rs.645.86 Crores showing a decrease of Rs.82 Crores i.e., 12.7% drop. Profit after tax during this quarter is Rs.434.89 Crores as against last year’s same quarter Rs.521.87 Crores showing a decrease of Rs.86.98 Crores, i.e., 16.67% drop. The generation during this quarter has been 3760 million units as against the same quarter last year 3964 million units showing a decrease of 205 million units, a drop of 5.18%. I am not taking break up of each project.

The plant availability factor from the Nathpa Jhakri project has been 98.47 % as against last year’s 104.39% and from Rampur project, it is 104.06% against last year’s 107.06%, showing a decrease of 5.93% in case of Nathpa Jhakri and 3.01% in case of Rampur project.

All these figures show that there is a drop in the topline as well as bottomline. The reasons are (1) during this quarter generation has been less and its reason has been because the discharges were less during this quarter. You will see that there will be a decrease in the plant availability factor also but this decrease is not on account of our operational inefficiency or because of something that our project management has not performed properly. It was because of the reason that the



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CERC has made a regulation, regulation came somewhere in the month of early May when they said that we are supposed to operate our plants up to 100% capacity.

Earlier we were operating plants on overload capacity and we were able to go 108% sometimes. Now, they have said that we will operate 100% capacity. Of course, they allow this overload from what it has been scheduled during the excess period but not during the normal period. Because of this reason, we have to have this reduction in the plant availability factor.

So all these things will show that though there is a drop and another factor, which I would like to say that in case of Nathpa Jhakri project, our annual fixed cost was Rs.1656.84 Crores, which now has become Rs.1368.83 Crores. It means there is a reduction of Rs.288 Crores. Reason is that, you know that as per the regulation, we get the depreciation. About say 60% of the depreciation, we get it during the first 12 years, almost 70% depreciation just in first 12 years. Thereafter the balance depreciation is spread over the balance life of the plant, i.e., balance 23 years. So, the depreciation, which we were getting earlier as a part of annual fixed cost, that is now reduced and because of that reduction, the annual fixed cost has reduced. When the annual fixed cost has reduced, therefore our energy charges and capacity charges have reduced. When energy and capacity charges have reduced, its impact is that whatever capacity incentive we were getting, this has reduced even the total per unit price of the energy that has reduced. So, these are the impacts, which have happened. It is because of the regulation and because of something which were already built into the system and overall I will say that the company has maintained its performance very well on the engine and operational front, we have been excellent, we continued this thing but because of certain things which were beyond our control or which were the requirement or the regulation, this drop has come. Thank you very much.

Moderator:

Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Pawan Ahluwalia from Laburnum Capital. Please go ahead.

Pawan Ahluwalia:

Thank you very much, two questions. First, you have new CERC draft guidelines are obviously out and there has been a lot of feedback CERC has been receiving from power producers. I do not know what line they are taking but from what we can read in the press it looks like they can go ahead with the draft guidelines and that takes ROEs down to about 14%. Over what period of time do you expect these guidelines to go in force and is there any reason to believe that they may be willing to change the starts related to what is there on the draft guidelines? Secondly, we discussed on previous conference calls the idea of potentially a buyback plan or the philosophy of the company would articulate neither the buybacks nor dividend in terms of Board's discussion on these matters?



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R.N. Mishra: As far as you are talking about the reduction in ROE, to 14%, you see, the present regime is from 2014 – 2019. I do not expect that this percent, whatever we are getting, 15.5% or 16.5% they are supposed to continue. That is our feeling. If there is any change, it will come beyond 2019.

As regards the buyback, we are going to have this buyback. The process is going to start and this buyback will take place during this financial year. Other issue you talked about subsidiary and other things. I think you mean that what we were talking about this company becoming subsidiary of NTPC, I do not know whether you mean that thing.

Pawan Ahluwalia: No, I asked you about that in an earlier call but if you have some guidance on that that is great, but any idea what the buyback philosophy will be?

R.N. Mishra: Buyback we expect to go up to 5%.

Pawan Ahluwalia: So, you would spend about 5% of the cash, because if you look at the way buyback philosophies are, best practices in buyback philosophies are including people like Warren Buffet and others what they have articulated, the company should just have a policy saying look, if the stock falls below we will buyback because we are creating for all the shareholders, most notably the Government of India. If you just say look if it falls below this price I am very happy to buy the stock back?

R.N. Mishra: See that is not so. We are not looking for the prices to fall below a certain level. This is not at all in our mind or in our dreams so far. We have not dreamt it even also but the things have not taken place, now they are going to take place and I think even now our share prices are quite good. I hope that they are on Rs.36, so it is not at all the thinking and these things are going to come and this will happen. This will have no connection with how the prices are moving in the stock.

Pawan Ahluwalia: Sir, I certainly appreciate the fact that the Board is recognizing the need to start a process of buybacks. The company has done a good job of returning cash by dividends and if you start the process of buyback, certainly it has a positive and hopefully it will accelerate going forward as opportunities arise. Thank you.

R.N. Mishra: It will happen.

Moderator: Thank you.

Deepak Agrawala: Sir, few questions from my side. Can you give us an update on the status of the project, especially the Bhutan Nepal where we are almost on the tendering process and about to start the construction?



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R.N. Mishra:

Yes Deepak. In Bhutan we have already done, about 90% of the road works are complete. Bridges what they were to be put they have been done. Most of the infrastructure except the colony for the purpose of these things is ready. Tenders for that purpose were called. There is some issue relating to concession agreement. That we have to sign Kholongchhu Hydro Energy has to sign with the government of Bhutan. That is also going to take place very soon. That we are once the construction agreement is signed only after that things they get legally valid. So, that construction agreement is to be signed and because of this, for the signing of construction agreement, the award of the major works are held up and as soon as the construction agreement is signed, tenders and everything will start moving fast, which I hope will happen very soon.

As for as Nepal is concerned, there, I had already told last time that we have got investment decision from the government. There were certain issues about the forest, that issue has been resolved. Agreement for leasing the forestland has been signed and the practice of the dam and part of the HRT has already been awarded on September 22, 2017. Because there will be two civil packages, one major package has already been awarded, the contractor has started mobilization on the forestland. There are committee for forest and they are for cutting trees and etc., you have to have an arrangement or agreement between the committee forest, the committee and the forest and the company, that agreement is getting signed out of 17 Village Development Committees, 15 have given their consent, so the cutting of the forest is going to start. But I tell you, to edit one the road is there, it means some edit work can start the contractor's facility can be set. So the things are moving well on their pace in the Arun-III project in Nepal.

Deepak Agrawala:

Sir, what is the status on the financial closure, because they have also floated tender?

R.N. Mishra:

Yes, as for financial closure is concerned, we have already invited bids from the financing agencies, from the banks, they are with us and we are evaluating them and we will be able to decide it very soon. I would like to say one thing, considering our financial position, other things, getting finances, getting loans is no problem for us, that is no issue. That will happen very soon and the financial closure date as earlier approved by the government was September 2017 for which we have requested an extension of six months. I have got unconfirmed reports that something is going to happen, I do not know, I just read something, which was in Nepali, I could not understand it fully but it appears that on that the government is positive. So, that date will get extended. So, on this account also there is nothing to worry.

Deepak Agrawala:

Okay Sir and I will come back in the queue.

Moderator:

Thank you. The next question is from the line of Chirag Vekharia from Budhrani Finance. Please go ahead.



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- Chirag Vekharia:** Good evening Sir. Just wanted to get a sense from you on the energy generated, in case we have a better rainfall, so even in that case you should be operating at 100% of the PLF, right, you could not operate at a higher capacity for hydropower?
- R.N. Mishra:** You are right, but you see what happens in case of Nathpa Jhakri, sometimes the silt also comes and we are supposed to do the flushing of silt at least once in a month. Time, which we use in, silt flushing, that time goes out of our numerator. That is the reason and moreover I told you that because of now earlier we used to put the machines on overload, go up to 108% but now the regulator has thought that this extra capacity which is available, that should be used for the grid, grid should be using it. It means that the grid operator should be using it instead that we consume it on our own. Because of that also, this reduction has taken place. And in case of Rampur also, both some reduction has taken place as compared to the last year.
- Chirag Vekharia:** Okay, Sir can you give us some sense on the UI charges and capacity incentive for both the plants?
- R.N. Mishra:** Coming to UI charges, UI charges from Nathpa Jhakri, we received this year Rs.16.42 Crores and from Rampur Rs.8.99 Crores, making a total of Rs.25.41 Crores. Last year this total was Rs.5.63 Crores. Coming to capacity incentive, from Nathpa Jhakri, it is Rs.6.22 Crores and from Rampur it is Rs.17.69 Crores making a total of Rs.33.91 Crores. Last year this total figure was Rs.53.50 Crores and the reason you can very well understand, because of the PF reduced and major reason you can see that our Nathpa Jhakri our AFC has reduced.
- Chirag Vekharia:** Right and Sir for the capex for FY2018, how much has been deployed and how much is still pending?
- R.N. Mishra:** For 2018, capex, we have now revised it to Rs.800 Crores, and total deployment is Rs.200 Crores so far.
- Chirag Vekharia:** Sir, the capex plan has been reduced downwards, right, I think it was Rs.1068 Crores in the beginning, right?
- R.N. Mishra:** Yes, it has been reduced this year.
- Chirag Vekharia:** And tantamount for this Sir?
- R.N. Mishra:** Because you see that, reason was that, we were expecting something to happen like Naitwar Mori project we were expecting we will get its decision earlier but we have got that investment decision now and the wind power and Arun-III actually **(Audio break) 21.08** thought that we will be able to award the work and go early but because of the forest leasing issue the award was



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delayed, Arun-III, and for the Buxar Thermal power plant also we have so far we could not go for plant order because the investment decision, the proposal is under consideration, the PIB note has not been circulated. So, these are the reasons therefore the money what was to be deployed on these projects that we could not spend and that is the reason why we have reduced it and now the things are coming like Naitwar Mori investment decision has come, its work we will be able to award very soon. We are in complete readiness and for this Arun-III project work has been already awarded. So we expect that whatever now we are planning, that we should be able to meet but definitely as compared to the earlier figures, we have reduced it by about Rs.270 Crores.

Chirag Vekharia: Sir, just wanted to get a sense from you, we are reading about solar energy. Do you think that the government aggression towards solar energy as a result of which the hydro project may not come so fast.

R.N. Mishra: As far as we are concerned, as far as the hydropower project is concerned, we had thought for the Arun-III, we had thought for the Kholongchu, and we had thought for the Naitwar Mori project. All these three projects are now **(audio break) 22.54**. The only one project that we were expecting it should come is Devsari. That is because of some forest clearance issues it has not come up. So as far as we are concerned, at least because of the wind and solar, we are not going to be impacted just in the immediate future or in this year because of this wind and solar. Whatever we have planned for wind and solar, that is separate from this.

Chirag Vekharia: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Good evening Sir. My question pertains out of Rs.890 Crores, which is pending right now, how much is beyond six months?

R.N. Mishra: Mohit, out of Rs.890 Crores, what you have said, Rs.437 Crores.

Mohit Kumar: May I know which are the states, which are not paying, which are being delayed?

R.N. Mishra: We are calculating for two months and beyond two months, in this type we are calculating. It means that, you see that, out of that Rs.891 Crores, beyond two months is Rs.413 Crores and less than two months is Rs.437 Crores.

Mohit Kumar: Sir, how much is the surcharge in surcharge payable in case?



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- R.N. Mishra:** This does not include surcharge.
- Mohit Kumar:** No, I am asking how much would be surcharge payable given all the delays which have accumulated over the year, which will get paid? Do you have the amount with you?
- A.S. Bindra:** Accumulated, it will be around Rs.541 Crores, accumulated, which we have not accounted for. We are accounted but we have already received.
- R.N. Mishra:** The surcharge will commence only after we receive it.
- Mohit Kumar:** What is the update on the tariff order of Rampur, why there is so much delay and when do you expected to get finalized? I am asking this question again because it is affecting our profit, right?
- R.N. Mishra:** I will answer you. For the tariff, actually, we have to go to CERC, present before them the approval given by the CCEA, Cabinet Committee on Economic Affairs. The proposal is already with the cabinet. As soon as the meeting takes place, whenever it is put in the meeting, it will get approved. So, I expect it to happen anytime. Thereafter we will file our revised petitions before CERC and I am very hopeful that during this financial year we should be able to get it.
- Mohit Kumar:** Sir, what is the capital cost at which we are recognizing the tariff right now versus the final capital cost for Rampur?
- R.N. Mishra:** Yes, we have recognized Rs.4233 Crores. We have already recognized the tariff. What we are getting the tariff, that is Rs.3109 Crores but ultimately we will recognize, that will be Rs.4230 Crores.
- Mohit Kumar:** Sir, one last question, there is this tender from the SECI auction. The 50MW, which is the part which we allotted to PSUs, there is some kind of bid happening. Are you participating in that? Have you thought about it?
- R.N. Mishra:** Yes, for that we have also shown our interest, we have also put there. If we get it, we will definitely be glad to take it.
- Mohit Kumar:** So, this is on the SECI round two right and the capacity 50MW, am I right?
- R.N. Mishra:** That we will do it.
- Mohit Kumar:** And Sir what is the criteria for this selection of PSUs?



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- R.N. Mishra:** Honestly, we have not been voicing, they have put some figures after that and it all depends on how many applications reach them and on the basis of the application they will make some criteria. At least, we do not know exactly what is the criteria, which is going to be followed, not to my knowledge.
- Mohit Kumar:** Sir, have you received the tariff for the Nathpa Jhakri final tariff order for FY 2014 – 2019?
- A.S. Bindra:** Final tariff has not been received but that will not impact much because difference is very minor, Rs.25 Crores to Rs.30 Crores difference is there.
- Mohit Kumar:** Thank you and wish you best of luck.
- Moderator:** Thank you. The next question is from the line of Pawan Ahluwalia from Laburnum Capital. Please go ahead. As there is no question, we move to the next question from the line of Deepak Agrawala from Elara Securities. Please go ahead.
- Deepak Agrawala:** Yes Sir, before closing the call, I have few more questions. Can you give us update on the project of 50MW bend in Gujarat because you were expecting it to become operational by end September?
- R.N. Mishra:** Yes Deepak, you are very right. We were expecting it to be operational by end September, but unfortunately, the project has been delayed, reason being that our party who is doing the job, they are facing certain issues regarding write off. Because of that reason we have already put about 22MW, have already been erected, but because of this write off the way the things are getting delayed. The efforts are being done to get it resolved, otherwise most of the supplies are available, all the things are available, only the write off is what is creating some problem, so as soon as it is done, but, I am hopeful that all these things should be sorted out within a month or so we should be able to finish up everything, because all other things are ready. By this calendar year, it should be fully operational, should be, I am very hopeful.
- Deepak Agrawala:** Sir, we also have invited a 60MW tender of wind to become operational in FY 2019, so any update on that?
- R.N. Mishra:** That we have invited to link it with SECI.
- Deepak Agrawala:** Okay, so you are not going on your own for it?
- R.N. Mishra:** That we want to have work only in conjunction with SECI, so, that we are having dialogue with them, we are trying so that we can coordinate this our tender with the SECI tender.



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Deepak Agrawala: Sir can you help us understand give us the break-up of receivables of three-four states where it is stuck?

R.N. Mishra: Yes, I will give you. The receivables from Government of Himachal Pradesh are Rs.307 Crores, from UP Rs.157 Crores, on J&K Rs.151 Crores, and the next is Punjab that is Rs.60 Crores, these are the major ones.

Deepak Agrawala: Sir, do we have to, rethinking on the capex of FY2019 as well because this will have an implication on the dividend that you might be considering as a Board for FY2018 and FY2019.

R.N. Mishra: I think Deepak, at present I will say whatever figures we have given that we are having at present but may be this question will be well answered may be after next quarter. We are holding the same figure what we have given.

Deepak Agrawala: Mallika, you can take Pawan if he is there otherwise we will close it here.

Moderator: Sure Sir. Mr. Pawan Ahluwalia please go ahead.

Pawan Ahluwalia: Thanks. I just had a follow up question that 5% you had mentioned for the buyback. If you are talking about 5% of outstanding stock that comes to about Rs.700 Crores, am I right about that, is that 5% of outstanding stock that you were referring to?

A.S. Bindra: Yes, 5% of the total equity plus that is in the result that will be 11500 Crores, 5% in that will be the buyback.

Pawan Ahluwalia: Okay, alright, got it and on the working capital front could you just give us a sense of increase which are the states that have accounted for the big delta in the increase and is this standard working capital issues with state government that gets resolved over the course of time or is it something is a more structural concern because we are seeing SEBs is also under cash flow pressure despite over there, so would just be curious to understand where this increase has come from and what your view is in terms of likelihood of it getting resolved?

R.N. Mishra: Mr. Pawan, can you repeat your question?

Pawan Ahluwalia: If you look at the increase in working receivables, we have an increase in receivables quarter-on-quarter, so what I am trying to understand is which state accounts for the big increase in receivables and in terms of your own experience in the power sector, is it just standard working capital issues with State Electricity Board which should get resolved or is there a deeper structural problem here?



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- R.N. Mishra:** Number one as far as receivables are concerned, if you see the last quarter and this quarter, as compared to last quarter, this quarter receivables have reduced.
- Pawan Ahluwalia:** We may be misunderstanding something, so the receivables this quarter has Rs.900 Crore and last year's the debtors were Rs.772 Crores, right?
- R.N. Mishra:** Last quarter was Rs.970 Crores and this quarter is Rs.870 Crores.
- Pawan Ahluwalia:** Okay, fair enough. In that case do not worry about it. That is our mistake, but the broader question of where SEB finances stand, given what we were reading about the UDAY etc. failure of UDAY to turn SEBs around, should we be worried about working capital issues as far as you can tell payments are broadly on track and you do not have any concerns?
- R.N. Mishra:** See, the one thing I tell you that if you see the entire history and entire trend, actually these payments are not a concern. Payments will come; nothing is going to become a bad debt, only thing the payments may be delayed. The concern that the money will not come, it will not happen.
- Pawan Ahluwalia:** Thank you very much, really appreciate this.
- A.S. Bindra:** Pawan if you go back, if you go back to figure of December 2016, it was at 1720.
- Pawan Ahluwalia:** No, it is clearly down from there, no question about that.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Agarwala for his closing comments.
- Deepak Agrawala:** We thank Mr. Mishra, Mr. Bindra and his team for giving us an opportunity to host this conference call. We also thank all the participants, investors and analysts for joining this call. Sir, any closing remarks you would like to offer?
- R.N. Mishra:** Thank you Deepak and my thanks and gratitude to everybody who participated in this conference call. As far as the company is concerned, as I said, company is operating in an excellent manner. There are issues, but those issues are beyond the control of the company. They are regulatory issues or because of certain things which are very natural. So, the company remains on firm footing, remains very sound in terms of its operation, in terms of its financial condition, we are highly thankful to you for interacting with us and for putting us in a right perspective in the market before others and we, the entire management, expresses its gratitude to everyone of you. Thank you very much. Thanks a lot, we can close now.



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Moderator:

Thank you very much. Ladies and gentlemen, on behalf of Elara Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.