

TATA POWER

“Tata Power Limited Q1 FY ‘19 Earnings Conference Call”

July 26, 2018

TATA POWER



MANAGEMENT: MR. PRAVEER SINHA, MD AND CEO, TATA POWER Co. LTD.

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Tata Power Company Limited Q1 FY '19 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. Should 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. Praveer Sinha – MD and CEO. Thank you and over to you, Sir.

Praveer Sinha: Thank you very much. Good Afternoon Ladies and Gentlemen and thank you for joining for the earnings call for Q1 FY '19. We have already shared the presentation with you and let me start by saying that this quarter, Tata Power across has been able to continue doing very good. All our operating units, Mumbai operations, Delhi Distribution, Maithon, performance has been very consistent as compared to this corresponding quarter of the previous year. CGPL has declared better availability and has also been successful in containing coal cost. In spite of sharp increase in coal prices as compared to last year, due to higher blending of low GCV coal, better forcing of coal, and lower shipping cost. Apart from this, CGPL financing plan is progressing well. Moreover, the high-power committee which has been constituted by Government of Gujarat had several interactions with all the stakeholders and is expected to submit its report by end of August. Although the performance of the coal companies has been impacted by the regulation on the domestic price obligation in Indonesia and higher operation expenses, but efforts have been made to curtail the O&M cost and also to mitigate the impact of regulation. Coal companies will benefit due to the continuing high global coal prices in the coming quarter.

During the quarter, the deleveraging plan was progressed and Rs. 2157 crores has been realized through sale of non-core asset. We also reduced the existing assets of further strengthening the balance sheet and you may be aware that S&P has recently revised the rating outlook to positive. In the renewal business, we have added a capacity of 352 Megawatts over the corresponding period in the previous year and have also won new bids of 400 megawatts recently. We continue to look at profitable growth opportunity through the bidding route and we will be very selective in our approach. The EPC business for Tata Power Solar has bounced back and has a very healthy order book of nearly 2700 crores, which will be exhibited in the next few quarters. We are also working on developing the business plan on various new initiatives to build value-added services and low asset intensive model, which we will share as and when we are ready with the same. We also intend to participate in transmission and distribution opportunities, which will see our growth in the coming quarters. As you will see, we are also excessively containing cost increases across the board including financing cost and all these steps will help in laying the foundation for the next stage of growth for the company. I presume that you have gone through the presentation posted on the website today and we are now opening the floor for question and answers.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Indrajeet from Macquarie. Please go ahead.

Indrajeet: My first question is on this discussions with the high-powered committee that you have been having in Gujarat, can you share some light on as to what direction these discussions are

happening, broad contours of what is the possibility which is being kind of discussed here or at least what Tata Power has kind of made representation in this committee?

Praveer Sinha: This committee is being initiated by the Government of Gujarat and the idea is really to work on the all the work that has been done in the past including the various judgment and also recently few months back there was a working group constituted to arrive at solution, so all this has been taken care in the committee's working. Now, the direction if you ask me, direction is clearly to attempt to solve the problem certainly. There are various issues to be considered, there are different views of stakeholder. The only difference is that this committee has consulted not just developers, but also all the stakeholders, lenders, procurers, even the consumer goods, so therefore, there is an attempt being made to find a solution which will be a win-win for all, so I think beyond that at this point it is too early to say because they have just kind of absorbing all the inputs that is coming through various stakeholders and I suppose that at some point of time, the various options on how to solve the problem would be coming up and then probably also the solution as to how the legal and regulatory part will come out. I think at this point only so much we can talk, beyond that it is still under process.

Indrajeet: Would the recommendation made by this committee be binding on all stakeholders or is it still open to then further legal scrutiny, just trying to understand the process here?

Praveer Sinha: Let us remember that any decision by any body in this case could be open for legal scrutiny, you cannot deny anybody to question or to kind of raise issues. Attempt is being made that all the key stakeholders of party to the PPA, etc., are agreeable, which means that they would take care of their own stakeholder issues, but we cannot rule out that any decision of the committee cannot be questioned, I do not think we can say that, but they are trying their best to arrive at a workable solution.

Indrajeet: Would that also mean that the earlier suggestion to handover the plant to the Gujarat Government for a nominal amount is that also being considered, that is also on the table?

Praveer Sinha: Well, right now that proposal is not really being actively pursued, but if the committee decides, so we cannot say that on their behalf. They have a solution in mind and that has to be solution then probably it is a different discussion altogether. Right now, certainly we are not proposing that.

Indrajeet: One question, this is on your renewable portfolio, I am referring to Slide 16 which talks about roughly total capital deployed of around 16,000 crores for a capacity of around 2200 Megawatts, can you just give me how much is the CWIP number in this?

Praveer Sinha: We will give you the CWIP number but suffice to say that we won only 400 Megawatts of projects and I do not think anything much was under construction. We just won the bids in couple of months ago, we will give you the exact number, Ajay will give you, it will not be very high.

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

Sumit Kishore: My first question is could you elaborate on the impact of the new law regarding the domestic market obligations in Indonesia and help quantify the extent of impact on revenue for the mines in this quarter?

Praveer Sinha: I think couple of points on that, first of all this mine is that this new regulation is not as of now a permanent change, it is supposed to be only till FY '19 and this is more because the coal prices have suddenly shot up, therefore, one is not sure how long this will continue. Second is that we do expect that post the elections in Indonesia, there could be a change in this whole approach in terms of pricing. Coming to impact, right now the way we see the kind of, it is about 25% of the output is towards domestic obligation and if the current prices are any indication, we might have impact of around \$ 20 million in a year for us, that is the current estimate, but that depends on what the market price is from time to time.

Sumit Kishore: So \$ 20 million is the impact over the full year?

Praveer Sinha: Yes.

Sumit Kishore: This is at what revenue level or?

Praveer Sinha: I am talking about post that impact. These are based on the estimates of the sales being made to the domestic consumer, also we are assuming that the price is similar to what it is in this quarter, so many ifs and buts are there, but it is not likely to be much higher than what I said.

Sumit Kishore: The \$ 20 million is Tata Power's share?

Praveer Sinha: Yes.

Sumit Kishore: My second question is regarding the 400 Megawatts new bids that you have won in 1Q FY '19, could you just discuss the tariff levels which you have won and the pipeline of tenders you see for balance fiscal FY '19?

Praveer Sinha: Can we give it separately?

Sumit Kishore: Sure. Could you elaborate on the pipeline of tenders you see for the balance fiscal FY '19?

Praveer Sinha: We have about 800 Megawatts of tender, you are talking about EPC side or the development side?

Sumit Kishore: On the development side?

Praveer Sinha: Development side, we have about 400 Megawatts which have been won and all those are very early stages and normally you know that they are 6 to 18 months is the range in which normally the PPA gets signed and work starts and the commissioning happens, so that is the pipeline as of now, and I am told the two tenders which we have won, one is the Maharashtra tender and the other is the Karnataka tender, one is at 272 tariff and one is 285, the Karnataka being 285.

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

Mohit Kumar: Sir, my question pertains to this delivering strategy, can you just elaborate on where is the Tata Project, Tata Ceramics and ACD is likely to be concluded and what could be the approximate value which we are looking for, and what were the use of the cash which we get from all the sale of assets?

Praveer Sinha: I cannot give you approximate value because Tata Projects is not published, so I do not know whether we can give you straight away the value, but you can probably guess from the fact that they have a large order book and also you have a comparative couple of companies in the country, it will be a significant amount. Tata Ceramic is too small, and we do not expect much because it is actually a very old plant, so therefore, we do not expect any monetization of bringing in some large amount, etc., is not going to happen, very immaterial. What we will do with this money, it is largely going to pay our debt, yes, that will also help us to then ensure that our balance sheet gets back in shape and be ready for the next stage of growth opportunities that we have.

Mohit Kumar: Sir, can we expect all this three to be sold in FY '19?

Praveer Sinha: No, as you know the Tata Comm. and the defense business, we have already signed and in Tata Comm. has been received the 2200 crores, ACD, which is a defense business, there are stage payments depending on the completion of the CP, which we expect some parts to come in FY '19 and thereafter it depends on the various performance parameters that have been set. As far as the others which you mentioned, Tata Projects, I will not call Tata Ceramics because the amount is not relevant at all. Tata projects will not happen before FY '20.

Mohit Kumar: Sir, second question pertains to this Arutmin, when do we expect the amount to be completely repaid to us, any updates which you can share now?

Praveer Sinha: We have been in touch with them regularly and so far, we have realized those to \$ 125 million of money from them and we do expect steady cash flow maybe \$ 10 to 20 or even \$ 30 million depending on how things progress every quarter and that is our estimate. It is going to be a slower progress, but it is a steady progress.

Mohit Kumar: In this IT piece of Zambia last year you had written-off a large amount of profit about 110 crores was written off and now the current run rate for this quarter is 20 crores, is this the new normal which we should consider for our projection?

Praveer Sinha: There is an MTM also gain in there, but the written off portion I must say that we are trying to also provide for a potential issue in the way the revenues have been calculated, so therefore, it may come back also, but this may not be new normal, it will be slightly less than this because it has certain MTM element in there.

Mohit Kumar: Sir, what kind of ROE you are looking in the Zambian project?

- Praveer Sinha:** Well, we do not disclose exact ROEs, but I can tell you that it is in good double digits.
- Moderator:** Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.
- Pulkit Patni:** Sir, the first one as I look through your Slide #10 where you have got the coal to power generation integrated view while the same time last year, we did not have a big difference between the coal business and CGPL this time around because of the domestic price obligation the gap has widened, what I am trying to understand is what is the thought process of the management as to how you can bring this down, and how should we sort of look at this difference going forward given that it is a pretty significant amount of 432 crore loss at CGPL vis-a-vis 300 crores profit at the coal infrastructure, that is my first question?
- Praveer Sinha:** Pulkit, going forward there are couple of things you have to remember that this quarter in KPC is not only a domestic market obligation, but also the mine has taken up intensive overall edge of its mining equipment, and this was a quarter when they had rains and they took this opportunity to do some overhauling work for the mining equipment, which was more than what they would have planned, so therefore this is a little uninjured quarter. We do not expect this quarter to be repeated exactly like this. The domestic market obligation pressure may continue for some time, but remember that correspondingly compared to last year, the price also has gone up, so in fact prices, if you see the benchmark price from QOQ it has actually gone up from \$ 81 last year to \$ 94, so we do see the impact of these in net realization reflected in the coming quarter, to some extent definitely therefore the negative impact of this domestic market obligation would be probably over, kind of taken care of by the price increase in the rest of the nondomestic component, which is export component. I do not think this is going to be the way for the coming quarter, it is slightly better and CGPL itself had over nearly 100 million of MTM Forex impact in this quarter, therefore, that also you have to take care that both sides went a little negative in this quarter.
- Pulkit Patni:** Sir, my second question is on Russia, could you give us a little more detail as to what is the progress we have made right now and when can we expect the first shipment of coal to come through from there?
- Praveer Sinha:** It is too early to talk about first shipment, right now we are in the process of doing a detailed evaluation and also completing the feasibility study and trying to see whether we can tie up the funding, so quite a few issues are yet to be fully kind of tied up, therefore, it is too early to even talk about Russia, I think we have to get to financial closure first and probably the launch of the work at the site we will start talking about Russia.
- Pulkit Patni:** So, we can assume it is still about two years away.
- Praveer Sinha:** All I can say is not before two years.

- Pulkit Patni:** Sir, lastly Slide #13, where you have the comparison of the Tata Power Solar Limited, how come there is such a steep fall in operating revenue from 875 crores to 345 crores because our order book sort of was building up over this period, so the fall is actually quite substantial?
- Praveer Sinha:** Remember, the impact of order book on the revenue has a 6 to 15 months kind of range before it takes effect, so if you recall what had happened last year was, there was this whole issue of safeguard duty on imported modules, which was a very big issue because of bidding, many bids got cancelled and many bidders did not participate, so there was a bit of a stoppage in the entire bidding activity and because without bidding, Tata Power Solar cannot get orders so that was really the period because of which their order book had dried up when they closed last year. Now, in the last six months, it has picked up and that is how you see now the order book back to filling and in the coming quarter the execution will start.
- Pulkit Patni:** Sir, my last question is we were not winning any bids on the solar side for a long time and suddenly we saw couple of bids coming our way, have we made any change to our return expectations, so that our bids have become more competitive versus the rest of the industry?
- Praveer Sinha:** No, I do not think we have softened our returns because we believe that we want to build a profitable portfolio and all we are trying to do is to take advantage of all the strength that we have in terms of bringing in key financing, good structure, and also optimizing on our EPC capability as well as also betting on our O&M capabilities, so I think it is more of, we are seeing what we can do better rather than just using returns as a way to win the bid, so you will not find us in bids where we are completely out pricing others when we are not comfortable with the return.
- Pulkit Patni:** Sir, on our expansion plans while there is a plan to deleverage, what is the plan in terms of equity generation or equity infusion into some of these businesses where we want to grow and how do we intend to get that equity?
- Praveer Sinha:** Our approach would be first to complete our monetization piece and then if we land up with very bold and big opportunities whether organic or inorganic, both we do not rule out definitely we will think about the next stage of deciding how to raise it, so beyond this the next step is really going to shareholders, but that will come only when we feel that we have an immediate requirement to shore up our war chest.
- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from Axis Capital. Please go ahead.
- Bhavin Vithlani:** One is in the coal business, would it be possible for you to share the 25% which is the DMO what is the realization on that and what is the realization on third-party, so it helps us kind of forecast for the balance part of the year?
- Praveer Sinha:** I will have Ajay to send you exact numbers, generally the difference is in the realization between the export and the domestic obligations, generally it has been \$ 4 to \$ 5 at least because of the nature of the coal low CV coal is what gets sold locally. This quarter, the realization difference

has been much bigger, it is more than \$ 15, I will give you the exact number, remember that the problem in comparing the two is that both are different CV coal, so it is not like to like comparison, that is why better way to compare probably is that had it not been for this regulation, what was the domestic coal realization and that answer is about \$ 10.

Bhavin Vithlani: The second question is on the growth in the renewables, could you highlight what is the target for growth in the renewables and how would that growth be funded, would it be like refinancing the debt and taking a longer tenure and there were increasing leverage and we will finance the growth or we are financing the growth as much as the free cash flow to the equity in the renewal business permit?

Praveer Sinha: We are not restricting it to what the renewable business generates today, if we get good opportunities, we will infuse more capital and frankly speaking for us, renewables is very much we look at the leverage at the overall level, so if it has to be tight at the renew coal level, we will not hesitate that as long as on overall level at the consolidated level we are comfortable, so it is not that we will be solely depending on the cash flows or the accrual of the renewable business alone.

Bhavin Vithlani: Any number that is in the mind, inorganic we do understand it is difficult to predict, but on an organic basis is there a target in mind that we could be building in terms of growth in the renewable business?

Praveer Sinha: Currently, we are at about 2.5 Gigawatts and we are targeting at least tripling it in the next four or five years.

Bhavin Vithlani: Your target would have organic plus inorganic embedded in that, would it be possible for you to share the breakup between the organic and inorganic target that you have in case of renewables?

Praveer Sinha: The way we look at it is, yes, we do expect consolidation in the industry in the next coming years, so that is there, but we do not want to take that as a target, because depending on the size of the opportunity, we will appropriately raise equity resources, so that is why we are not worrying too much about estimating the inorganic route. In organic route, there is so much room for growth even assuming the Government targets are not met fully, still there is so much growth that what we are targeting that at least, we will put another double this amount in the next four to five years even that still as a market from a competitive overall market is not much, so there is scope for lot more. It is only our appetite and financially how profitable the opportunities are that will drive our appetite, we will not just go and accept very low returns and try and grow helter-skelter.

Bhavin Vithlani: Last question, any update on PPA on the Mumbai license area?

Praveer Sinha: Right now, the Mumbai license area is still with regulator because the bids have happened, and we have also submitted our bids. The discussion is more around how the transmission capacity if the bids are accepted and how the transmission into mobile will be handled, this is more a discussion between the regulator and the BSE and the state transmission utility and once they make up their

mind, then the BSE will probably let us know the decision and we will have to act accordingly, but as far as we are concerned our stand has been the average cost of power which potentially if the bids are accepted also is going to be slightly higher than what already Tata Power is giving is abundant, so therefore, we feel that there is a good reason for us to be in the reckoning either way, but we have to wait for the regulator's decision.

- Bhavin Vitlani:** Would be likely that in the current quarter, we could get some clarity on that?
- Praveer Sinha:** I think it is very likely in second quarter.
- Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.
- Bhargav Buddhadev:** Sir, number one is on this proceeds which have been received from the sale of Tata Comm. when do we expect that to be deployed in the form of debt repayment?
- Praveer Sinha:** We have lot of short-term debt already floating, so therefore, we immediately reduce the debt. Eventually, it is fungible, so therefore effectively it is already been.
- Bhargav Buddhadev:** Sir, in 2Q can we expect interest cost to proportionately reduce?
- Praveer Sinha:** Sure.
- Bhargav Buddhadev:** Secondly Sir, in terms of this consideration from the defense business you did mention that we expect some part of it to be received in FY '19, is it possible to quantify how much is the amount and by when will we receive this amount?
- Praveer Sinha:** The way the agreement is that the closure of the transaction would entitle us to at least 1000 crores, but that is subject to of course adjustment for profit or losses during that period and therefore whatever and any other adjustments, so that amount one could expect at the time of closure. It also depends on the progress of the business till the time of the closure with subject to the profits and loss within that transition.
- Bhargav Buddhadev:** Sir, in '19 how much amount can we expect?
- Praveer Sinha:** I can say that the maximum amount will be 1000 crores.
- Bhargav Buddhadev:** In terms of timing, is it possible to expect in this calendar year?
- Praveer Sinha:** Not sure, this is entirely left at the Government and NCLT because it has to go through a procedure.
- Bhargav Buddhadev:** In terms of Tata Projects, Sir, you said that the deal possibly can happen only in FY '20 and not in FY '19, any reason why?

- Praveer Sinha:** Well, frankly you have to remember that while I am a ready seller, I cannot talk on behalf of buyer, so we will have to see when the buyers are also ready to sign up on this, we are making all efforts to do the transaction, so it is not entirely in our hand, but we are trying our best.
- Bhargav Buddhadev:** Sir, there was a mention about NCD issuance of about 55 million in the annual report, what is the rationale for this?
- Praveer Sinha:** It is part of the overall borrowing, we are trying to do is given the bank loans and also to adjust to our cash flows, we are building a portfolio of bonds and loans, this is just part of the overall portfolio that whatever is coming up for refinancing, we will take some part in loans and some part in NCD.
- Bhargav Buddhadev:** Lastly Sir in terms of a bookkeeping question that the profit in the business in the presentation is mentioned as 144 crores whereas in the press release it is mentioned as 125 crores, so just wanted to check?
- Praveer Sinha:** What are you referring to, can you say that again?
- Bhargav Buddhadev:** Sir, in the presentation on Slide 16, our renewable profit is mentioned as 144 crores whereas in the press release on I think in the third page where you get the key highlight especially on BSE, it is mentioned renewable profit stood at 125 crores as against 142, but I am not so sure if the renewable profit has declined so just wanted to clarify?
- Praveer Sinha:** I am unfortunately just not carrying the press release; can Ajay clarify to you?
- Bhargav Buddhadev:** Yeah, no problem, Sir.
- Moderator:** Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.
- Puneet Gulati:** Just a bit more on the Indonesia side, how much extra would the O&M expenses have been for this quarter and do you expect it to go down from the subsequent quarter?
- Praveer Sinha:** 20 million is the extra maintenance expenditure and I forgot when the earlier caller, I do not remember who asked, also remember that fuel prices, this mining cost and fuel element, there has been a substantial increase from \$0.55 to \$0.71 in the fuel prices that has also led to in this quarter about 30 million total, 30 million is the kind of increase on at the company level, but that would depend on fuel prices going forward. The repair and maintenance is what you mentioned is 20 million.
- Puneet Gulati:** So your cost of production if I look at from on dollar basis went up from 32.2 to 37, so will it be fair to say that it will still be almost 34?
- Praveer Sinha:** I cannot say, I will tell you why, what we normally do is when we see a spike in and you would have seen that in the quarter when coal prices went down that the mining plan is adjusted to ensure that cost of production is controlled. Normally, the mines react to this kind of sudden increase by

appropriately handing the mining plan, so I would say that they would probably try and restrict the increase and minimize the increase, we will see how best their efforts. In the past, they have been very successful if you see the past records.

Puneet Gulati: Will it be fair to say that despite the DMO, you would still be net long on coal?

Praveer Sinha: Unless a very unforeseen surprise come in, there is no reason why should it not be so?

Puneet Gulati: My next question is on your debt, what would be your marginal cost of debt now?

Praveer Sinha: About 9%, I was not trying to get into too many decimals.

Puneet Gulati: You also mentioned in your opening comment that you are looking at some transmission and distribution opportunities, can you comment upon what those are for you?

Praveer Sinha: There are some transmission projects, which are coming up of bidding. These are intrastate and interstate transmission projects and we expect to meet all of them once they come up. Similarly, there is a distribution opportunity which has come, and we are looking at that opportunity also.

Puneet Gulati: Which distribution opportunity?

Praveer Sinha: This is CESU distribution opportunity which is there and as and when these get come out, we will participate in that.

Puneet Gulati: Also your Mumbai, the regulatory equity in your Mumbai operation is down on QOQ basis, any color on that?

Praveer Sinha: Since you know Mumbai also has some non-regulated pieces also, there wind has been lower this season that affected the overall standalone, so I do not know whether you have been given that information. There is I think lower incentives and I can see here that the.... You are talking about the increase from 3783 to 3793?

Puneet Gulati: 3927 going down to 3793, yes.

Praveer Sinha: This must be because of the write-down on some assets which we would have done, I think it is Unit 6 right now, 100 crores write-down which we did probably that effect is here. We can give you the details, but it must be because of write-downs.

Puneet Gulati: Also your Maithon operating profit was also down, so any color there?

Praveer Sinha: That is essentially to do with the regulatory order where certain items have been disallowed, while we are contesting it, we have taken a conservative view in the accounts.

Puneet Gulati: Lastly also, if you can help me understand a bit more on IndAS 115, have you also restated your FY '18 revenues for that or is the impact limited to just FY '19?

- Praveer Sinha:** We have restated the previous year also, so about 50 crores is the impact between the two after restatement.
- Puneet Gulati:** What exactly is this, how is it really?
- Praveer Sinha:** IndAS 115 in very simple language, if there are contracts or revenue in which the revenue stream is different during the period of the life of contract and the service delivered or the power delivered, etc., is the same throughout the period then the standard says that you have to equalize the revenue, so Mundra for example, the way we have bid was that there fixed cost was quoted at a certain level for certain number of years and after that coincide with the repayment of loans, the fixed cost were ready, so that is the way is normally the pattern is, so the accounting standard says that you have to recognize them all in terms of an equalized amount every year, so effectively you try and recognize some of the future decreases year-on-year, that is the standard, so you have to take an effect now.
- Puneet Gulati:** It should positively impact, how is it negatively impacted the revenue?
- Praveer Sinha:** Because as per the tariff, that fixed cost goes down after a certain period of time, that ideally should not be affecting this year in the normal, common sense says that why should it affect this year, accounting standard says you make a provision effectively for it by equalizing it as a fixed number throughout by taking a certain discounting factor, you just spread it around equally over the entire period of the contract.
- Puneet Gulati:** Okay, so tariff also goes down to that extent?
- Praveer Sinha:** Tariff means in real life does not go down, but for accounting purposes it goes down.
- Puneet Gulati:** Lastly, the coal infra business was also down this year, any comments there?
- Praveer Sinha:** In the coal SPVs, we were receiving management fee, that has stopped now. It is an arrangement which was for some years, it has now ended. Coal tonnage in the infra is also dependent on the, it depends on the coal quantity, so if coal quantities actually vary than the revenue also goes down, but this will take eventually restore because annual quantities are more or less met.
- Puneet Gulati:** Does that mean that DMO will actually impact the coal transportation quantity as well?
- Praveer Sinha:** No, DMO physical movement is the same, right. DMO only the pricing effect, so if the company moves physically coal, so quantities are more or less going to be the same.
- Puneet Gulati:** So on full year basis the quantity will be same, it is just an impact on this quarter and the management fee goes away?
- Praveer Sinha:** Yeah.
- Puneet Gulati:** So how much would the management fee be on a full year basis?

- Praveer Sinha:** I will ask Ajay to give you that.
- Moderator:** Thank you. The next question is from the line of Dhruv M. from Motilal Oswal. Please go ahead.
- Dhruv M.:** Sir, the first question is on the interest cost, there is an increase in interest cost on QOQ basis, so what is the FX impact here and what is the underlying increase, because I was expecting a decline?
- Praveer Sinha:** Approximately 100 crores are MTM increase.
- Dhruv M.:** Sir, if I exclude the MTM still there is an increase in the interest cost, so what is driving that increase because I thought gradually we will be seeing a decline in interest cost?
- Praveer Sinha:** I think the effect of the additional borrowing during the period is coming in whereas the saving from the monetization, etc., will be appearing later, I think there is a bit of timing issue.
- Dhruv M.:** Sir, this Indonesia coal pricing change, I think they have fixed it to at \$ 70 their domestic pricing, so this in effect impacts a hedge between Mundra and coal, the Indonesian coal mines and our Mundra assets, so how do you offset this now, because this was working beautifully for the last few years, but with this 25% quote on domestic pricing, so how does it impact our overall hedge situation and how do we look at it now?
- Praveer Sinha:** First of all, let us understand, this is not a permanent feature at all, so this was introduced to, because what has happened in Indonesia is also trying to liberalize its oil internally the oil pricing also, they were also having large subsidized oil regime so that, since the economy is also facing that pressure, they wanted to protect the domestic power industry also, which is the PLM which is the stated... so now this measure has been taken temporarily in our view because anyway the law itself is only till some 12 to 18 months, so it is not a composite loss. Second, the coal prices may not stay forever in these levels is the way they are looking at, and therefore, if coal prices come down then this cap is not required, so therefore, we do not know or at least we do not feel that it is going to last too long, therefore we are not too concerned.
- Second, this kind of pressures will keep coming from time to time. You have to remember that if the coal prices stay high, the rest of the quantity, non-DMO quantity of course is going to have increase in profits, so there is some amount of let us say make up there and the coal mines normally react to this by addressing the cost issues and manage them accordingly, so I think it is too early to talk about the impact on the hedge etc., quantity wise the hedge is still there, so therefore right now unless we are over the next four or five quarters if we see this continuing then I think we need to understand because this will continue to go longer period or not. The other way we look at it is this regime has come only because coal prices are very high, and you know if coal prices are very higher, we generally tend to benefit, the extent of benefit will be slightly less.
- Dhruv M.:** Sir, just a thing on the Delhi distribution, I was going through the annual report, so in one of the notes it was mentioned that the regulatory asset as per the regulator is about 2500 crores versus what we book in our accounts is about 4500 crores and there are various reasons because of the

CAPEX disallowances, power purchase disallowances, so if you can just clarify on what is the status there, when can we expect a recovery and what is holding it back?

Praveer Sinha: All the individual items we have good reasons to believe that they will be allowed ultimately, there is a pending verification of certain things that the order mention. For example, there was a long pending verification of fixed asset, etc., capitalization which the process is already started and in fact the early year of where there was a fear that there was a lot of differences, etc., that already has been concluded, so in a way our own internal view is that those will be ultimately when the verification is completed, these amounts will be billing to us, so we do not see a huge risk over there of disallowance in the long run. It has just been held up pending the validation by the auditor and the regulator.

Dhruv M.: Sir, is this physical verification ongoing or is it yet to start and when do you think it will be complete or when could we expect, because this is a decent cash flow which we can realize readily?

Praveer Sinha: It is already ongoing, and this thing is continuing, and it will go on till it is updated to the current year. We believe that by end of the year if the current speed is any indication may be at the end of the year, it will be over.

Dhruv M.: Sir, large part of the difference is because of the CAPEX disallowances, right?

Praveer Sinha: Yeah, the CAPEX disallowances is the major amount, the Rithala piece is a separate piece which we are addressing differently and we may end up with some middle ground on that.

Dhruv M.: Sir, on Tata Projects I just missed it, did you say not before FY '20 or in FY '20?

Praveer Sinha: I said not before FY '20, it is not in FY '19, let me be clear because it does not look like right now it will happen in a hurry.

Dhruv M.: But you are not ruling out FY '20?

Praveer Sinha: I am not ruling out anything, I am saying that we will try and do it as early as possible.

Dhruv M.: Sir, when do we expect these RE projects 400 Megawatts to be commissioned?

Praveer Sinha: I think half of them are supposed to be complete in the next 12 months and I think the other Karnataka one is there is a 21-month period in the PPA, but our target will be to commission ASAP.

Dhruv M.: Sir, can you give the quantity of coal consumed in Mundra because that will help us to understand how much is because of low GCV coal, the benefit is because of low GCV: how much is because of spot buying for the current quarter and for the same year previous year quarter?

Praveer Sinha: About 2.5 million in the quarter and previous year 2.1 because the PLF was higher.

Moderator: Thank you. The next question is from the line of Rahul Modi from ICICI Securities. Please go ahead.

Rahul Modi: Sir, just lastly on the recent announcement on the 25% duty on import of solar panels, so just wanted to check how do we gain on the manufacturing side and how do you view the changing environment now, in terms of tariffs going up with the upcoming solar bids?

Praveer Sinha: I think the way we see it is our capacity is only 300 to 400 Megawatts therefore to that extent definitely our parity will be much better established, if the regime is implemented. On the import, which means the people who are putting up solar plant using imports, it will be a general price increase for all. There will be a level playing field in which case the pricing does go up. Now, it is too early to say what impact will remain because how people will adjust and even the exporters in China and other places would adjust to this new norm will be interesting to see, I think we are yet to see that how they react because they will have to say they may reduce their prices to make it competitive or they may not, that is something we have to see.

Moderator: Thank you. The next question is from the line of Anirudh Gangahar from Nomura. Please go ahead.

Anirudh Gangahar: My first question is in the CGPL slide, we see the realization given by the company as Rs. 2.70, if I was to just calculate the realization as the operating income divided by the sales, it comes to Rs. 2.86, could you please explain what is the differential on account of and which is the right and relevant revenue metric that we should be using?

Praveer Sinha: Anirudh, if you do not mind can I ask Ajay to clarify to you.

Anirudh Gangahar: Secondly, my other question was that just to arrive at your normalized consolidated profit, was there any tax element on the sale proceeds from Tata Communication that we need to adjust it for and there was a huge deferred tax provisioning this time if you can provide any light if there is any one off element in that besides the 100 crores of MTM that you just mentioned?

Praveer Sinha: 295 crores is the amount of tax that we provided in the standalone. On consol level 414, the effect is different in standalone and consol, consol is 414, so 1897 is the realization minus 414 is deferred tax.

Anirudh Gangahar: Out of the total deferred tax that we have provided of 457, 414 will be pertaining to the sale of proceeds?

Praveer Sinha: Yeah, at the consol level.

Moderator: Thank you. The next question is from the line of Apoorva Bahadur from ICICI Securities. Please go ahead.

Apoorva Bahadur: Sir, wanted to understand this implication of IndAS 115, so on the renewable projects that we have bid which we have purchased from Welspun, there as well I believe the tariff will be looked at across the years, so will there be a need for provisioning as well?

- Praveer Sinha:** Remember that there are only couple of contracts that we have, both in Tata Power Renewables as well as the Valvan, which are needing these adjustments, they are very, very small, so as a result the impact is negligible, we are talking about the 2 to 3 crores kind of impact because there are only couple of contracts, very old contracts if you recall those Gujarat bids were Rs. 15 was the bid and then it goes down to 12, those are very small.
- Apoorva Bahadur:** Sir, also wanted to understand on this tax on the sale of investments the gains, the deals that we will be closing now going ahead, I think there will be a much higher capital gains that impact, so how much should we expect that to be?
- Praveer Sinha:** Wherever we have some losses also to be adjusted so we do not expect large capital gains, because indexation is also there, these are very old assets and there is a large indexation benefit that is there.
- Moderator:** Thank you. The next question is from the line of Abhishek Puri from Deutsche bank. Please go ahead.
- Abhishek Puri:** Sir, just wanted to understand the impact of that Mundra AS 115 that you have done that amount is significant in your opinion for this current quarter?
- Praveer Sinha:** The current quarter the impact on the revenue side is about 80, so translate into PAT, totally is about 72 crores.
- Abhishek Puri:** Second, I think there is a Forex impact of about 100 crores in the interest component you mentioned as a one-off?
- Praveer Sinha:** Yeah, it is there on Slide 8, 98 crores.
- Abhishek Puri:** There is a 45 crores amount on the hedging cost as well?
- Praveer Sinha:** Yes.
- Abhishek Puri:** These are the three one-offs or there is anything else that we need to account for?
- Praveer Sinha:** By the way, Abhishek, the hedging cost difference is only 11 because last year was 56 and this year 45, so it is at a positive level.
- Abhishek Puri:** Sir, secondly on the solar side specifically I am looking at TPREL numbers, the EBITDA seems to be higher than revenue, so are we accounting for other income also in EBITDA and not in revenues?
- Praveer Sinha:** On a standalone basis has dividend income, that comes in other income 47 crores is there in this quarter.

- Abhishek Puri:** Sir, secondly on TPREL we have added nearly 300 Megawatts of capacity since last quarter I think which is roughly about 70% on the capacity side whereas the PAT is up only about 20%, is it due to the stabilization stage or we have added asset in between the quarter or these assets have worked for the full quarter?
- Praveer Sinha:** It is actually stabilization phase, I think next quarter onwards hopefully this will be, because the charge of the fixed cost of the depreciation and interest is fully charged whereas your revenue stream is yet to be stabilized, I think they will now get stabilized.
- Abhishek Puri:** Sir, thirdly on the bids that if we have won 400 Megawatts bids in Karnataka and Maharashtra, is there an implicit understanding that Tata Power Solar will be doing the manufacturing and EPC job?
- Praveer Sinha:** Yes.
- Abhishek Puri:** And that is how we have derived the target 285?
- Praveer Sinha:** By the way you must know that Tata Power Solar does not necessarily do only manufacturing and they import EPC also, so that depends on which bid we are in.
- Abhishek Puri:** So it is not necessarily a manufacturing from here, it can be an import plus EPC?
- Praveer Sinha:** Yeah, all the EPC that Tata Power Solar does actually, today for example, they have done over a Gigawatt but whereas their capacity is only 300 to 350, so therefore, they have to do balance by import, that is what they do.
- Abhishek Puri:** Lastly, Sir, on the standalone business, the Mumbai license area business, five or six years we are seeing the volume declining, the sale volumes are being declining from almost 16 billion units in 2011, 2013, going down to about 12.2 billion units last year, I think the overall regulated equity numbers have actually gone up, so in that context how are we looking at future CAPEX requirement in Mumbai or are we doing any further capitalization in next couple of years that we are looking at or expanding the number of consumers?
- Praveer Sinha:** Abhishek, your answer is the decline in units and the increase in regulatory equity, the answer is that regulatory equity is a matter of capitalization. Capitalization has been steadily by operations increasing, but it is essentially on the transmission and distribution side, so generation side is actually we have paid so even though it is a drop in actual offtake which you will always recover the fixed cost. In terms of CAPEX, we have a steady 400-odd crores of CAPEX in between transmission and distribution and generation is coming down drastically, we are not putting too much CAPEX because of the clarity required post the PPA, so therefore, you can take that 400 to 500 crores of CAPEX.
- Abhishek Puri:** Sir, on the synergy asset, wind asset you have seen recovery profitability, is there any one-off effect or is it on a going concern basis because in similar period, our first quarter was a loss and even Q4 was a loss?

- Praveer Sinha:** One is that even the tariff structure of that project there is a inherent escalation clause with the index space, so that has kicked in now, which was not there last quarter, so 4.5% is the increase in tariff in this quarter, which has started from April, so therefore, that is one revenue increase kick-up and also there is MTM, remember this company synergy actually runs two projects, two SPVs and those two SPVs are some adjustments in minority shares, etc., that MTM is direct. Also it has got interest rates hedges, which causes MTM impact, I will ask Ajay to give you the number, so basically the combination of revenue increases because of tariffs, then there is MTM effect, and there is what we call as a share based payment method with the valuation that is done the key element, but overall operational performance wise it is doing very well.
- Abhishek Puri:** Have we started any procedure to sell of these assets or how are we looking to monetize it and in what timeframe?
- Praveer Sinha:** As and when we decide, we will of course let the whole world know, but right now there is nothing as of now.
- Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.
- Bhargav Buddhadev:** Sir, just one follow up question on this 414 crores which we have provided on the sale of Tata Comm. is there any offset available from the loss which we have incurred on the Tata Tele bit?
- Praveer Sinha:** Yes, and by the way this is avenue recognized as held for sale, you have to do corresponding tax adjustments also, so in a way that has already been factored in.
- Bhargav Buddhadev:** So there is no cash outflow of 414 crores in the form of tax payment, right?
- Praveer Sinha:** No.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Praveer Sinha for closing comments.
- Praveer Sinha:** Thank you very much for joining the call and if you have any other questions, you can always get in touch with my colleague, Ajay Bagri, and will be more than happy to respond to all your questions. Thank you for participating.
- Moderator:** Thank you very much, Sir. Ladies and Gentlemen, on behalf of Tata Power Company Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.