"The TATA Power Co. Limited Consolidated Q3 FY10 Conference Call"

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COMPANY: **MR. S. RAMAKRISHNAN, ED (FINANCE)**
MR. PADMANABHAN, ED (OPERATIONS)
MR. BANMALI AGRAWALA, ED (BUSINESS DEVELOPMENT AND STRATEGY)

Moderator: Ladies and gentlemen, good afternoon and welcome to the TATA Power conference call. 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. If you should need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touch-tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. S. Ramakrishnan, Executive Director Finance. Thank you and over to you sir.

S. Ramakrishnan: Good afternoon, we are pleased to welcome you to the analyst call for Q3 FY10 consolidated results of TATA Power. I am Ramakrishnan. I am the Executive Director of Finance of TATA Power. Our CEO Mr. Menon is traveling and has not been able to join the call. I have with me Mr. Padmanabhan, our Executive Director Operations and Mr. Banmali Agrawala, Executive Director Business Development. We have already mailed the detailed presentation on the consolidated results to you, so I will not be taking you down line by line. However, I want to bring few important features of this quarter results.

If you go to consolidated financial results slide 7 of the presentation which we have released, I would like to you to note under item 3L – Deferred Stripping Cost, Net write-off and write-back of Rs. 370.67 crores and I would also like you to note item 12, Provision for Taxation, where it has in the current year, minus Rs. 47.81 crores. I will explain both these a little while later because these pertain to the coal companies, the two coal mines in which we have 30% investments. If I take you to the segment results as published in the papers, you will see the segment result shows that there is a improvement in the financial PBIDT of the power operation for this quarter from Rs. 310.20 crores to Rs. 516.48 crores. However in the coal business, you will see a reduction from Rs. 574 crores to Rs. (171) crores.

I will also like to take you to the notes to the accounts which have been published. If you see item number 4 of the note, we have explained that the coal companies have reviewed the provisions related to stripping cost, both of the current period and the past periods, which has resulted in a charge of Rs. 350.89 crores. Let me explain that. The coal companies obtain what is called a reserve statement periodically. The reserve statement is a statement that is based on the mining plans that prevail, the long term outlook for coal price and the long term outlook for costs of coal operation, how the mining will proceed and what type of reserves these mines have. While doing the mining plan, the report also says what will be stripping ratios on a long term basis from pit to pit which are being exploited at this point of time.

As per the accounting practices in the coal mines, the long term stripping ratio is something that you look at before deciding how to handle the stripping cost. If the actual stripping ratios are higher than the long term stripping ratio in the plan, you hold extra stripping cost as a current assets because over a period of the life of the pit, you expect the stripping ratios to fall below the long term stripping ratio, so that the initial increase and the later decrease average to provide the long term stripping ratio. When that happens the amounts from the current asset are written off. However the long term stripping ratios are reviewed periodically. The mine had done a report on reserve what is called JORC report in November 2009. Based on the November 2009 report, the mine had realigned the stripping costs that are being held in the current assets and had decided to write down these current assets as stripping cost. That is that entry which appears in item 3L. The long term shipping rations have gone up. The last time that the coal mine had reviewed the stripping ratios was almost 3.5 years to go, sometime in 2006.

As you are all aware, from 2006 the long term coal prices have gone up, which means that the pits are being exploited deeper (by going deeper you can afford to spend more money on stripping cost), so that you are in a position to take out more coal and the revised result statements do show that the reserves of the mines have gone up arising out of the long term price of coal. This has necessarily resulted in an increased stripping ratio which in 2009 based on the report. We had decided to realign the stripping cost which has led to this provision of Rs. 357 crores. I just want to point out that this provision only pertains to our cost. If you look at the profitability of the coal companies, the extra stripping costs that have been provided, about 5% pertain to the current quarter, 15% pertains to the Q1 and Q2 of our year and 80% pertains to the period before 1st of April 2009. And if we look at the cost per ton of our operation, the deferred stripping cost for this quarter and the deferred stripping cost of Q1 and Q2, which means we look at it on a YTD basis, has increased the cost of stripping by $1.48 only, the remaining increases are due to some past periods which are not repetitive in nature and hence this $1.48 on a base of about $30 of cost of mining, say, is about 5%. The coal mines continue to remain profitable, continue to remain a viable proposition in the long run. That is the statement that I wanted to make.

The second one is that if you see the PBDIT on the segment result where there is a change from Rs 574 crores to Rs (171) crores (574 was a year earlier). The year earlier, realizations of the prices of coal were far higher. Today the realization for YTD of this year, runs almost 20% lower than what it was. However if you see what is it we reported in Q2 of this year; in Q2 of this year, this very same figure of Rs (171) crores was Rs 340 crores, the gap being about 500 crores. The second thing that influences the number is the exchange rate. In Q2 ending, the exchange rate was 48.54 while in Q3 ending, the exchange rate is 47.91. So if I convert it to in US dollars, the difference is about $103 million; the difference in profit between the Q2 of this year and Q3 which reflects in our balance sheet. You will see that of this amount the explanations are about 350 crores due to stripping cost, there is a contractor settlement of about 40 crores (one of the contractors working in Arutmin, his past claims have been settled that add to about 40 crores), there is an increase in staff cost of about 30 crores and mining cost of about 20 crores, all of which adds to about Rs. 440 crores. There is another 70 crores which has come about because of related parties. We have a subsidiary in Singapore for Trust Energy which buys coal from Bumi and supplies to Trombay. So in the game of elimination, the cost of coal of Trust Energy was being treated as pertaining to the Coal operation, though actually it should have gone into Power. But Trust Energy as a company, since it deals in coal trading, has been classified by the auditors as part of the Coal operation. And hence this difference that I am trying to explain to you of about Rs. 510 crores.

Other than this, we don't have any other things to offer, but may be we can give you some broad feel on the coal operations. The coal operations, this particular quarter had a sale up of around 17.1 million tons of coal compared to 13.58 the previous year and YTD figure for production has been 46.82 compared to last year's 38.98. However I just want to say, our nine months will not correspond to the Bumi Resources results, their financial year is January to December, while our year is April to March and what we are sharing with you is April to December figure. And if you see in terms of realizations - realization YTD this year are lower than last year by at least about 20% and the costs are roughly to same compared to the last year. The YTD cost and the current cost, in fact the current costs are lower by about 7.5% because the cost of oil for the first nine months of this year had been lower than last year. Otherwise, the coal operations continue to be profitable and our current outlook for coal price has been, (the recent months we do see a spurt in the coal prices and there are certain contracts that have been entered into recently which have a benchmark coal price of anywhere between $90-$95 and we believe) that this strengthening of coal should continue rest of the period. As of now the coal companies are performing at about 5% price realization higher than the plan that we had approved some time in December for the whole year, January to December. The power company operations as I said from PBIDT continues to be robust and you would have seen the subsidiary companies results which are covered in Slide 19 each and every company of ours has reported profit higher than the previous period that is covered in Slide 19 that has also been mailed to you and available on our web site. With these comments I will hand it over back for the questions and answers. Thank you.

Moderator: Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. First question is from the line of Venkatesh B. from Citi Group. Please go ahead.

Venkatesh B: Sir, if you could take us through those realization numbers for this quarter, you know what was the realization in dollar terms, what are the costs, the exchange rate on YOY basis, how has it moved and if you could just repeat the volume numbers, I think I missed those numbers?

S. Ramakrishnan: We have in the nine months sold 46.82 million tons of coal compared to 38.98 last year.

Venkatesh B: Yes sir.

S. Ramakrishnan: The realization FOB price has been just under $60 while it was just under $80 last year for YTD.

Venkatesh B: Okay, and the cost sir?

S. Ramakrishnan: The gross profit margin after providing for the deferred stripping has been last year around $33 to be precise whereas this year if you adjust for the deferred stripping of the past year, but keep the current nine months, that is about $23.

Venkatesh B: Okay. Sir and what about the exchange rate on a YOY basis?

S. Ramakrishnan: The exchange rate as I told you is, 47.91.

Venkatesh B Okay

S. Ramakrishnan 44.68 was the previous year. There is one more, now since you are on the line, I haven't explained is the tax. You do see current tax in the first sheet as negative which I pointed out but I didn’t explain. Because of the provision on the deferred stripping, there has been a reversal of tax too and to that extent is why the tax is appearing negative, because the 300 odd crore has made the Q3 into a loss and hence there is a certain tax paid.

Venkatesh B: Sir the reversal would be at a tax rate of…

S. Ramakrishnan: 45%

Venkatesh B: Sir my second question is on, why is there a write back in terms of deferred stripping cost last year? So to that extent, can we say that last year's coal PBIT is not a true representation and you will have to adjust that downwards, by around roughly 250 crores or so?

S. Ramakrishnan: Till the stripping ratios are decided, are adjusted, from time to time, then whatever is the previous set of stripping ratio, it is on that basis that costs are either written up or written off, depending upon the actual stripping ratio. But if you want to know of these 300 odd crores, how much pertains to the previous periods, I told you 80% but not all of it to the last year, I will give you the figure what percentage pertains to the last year number for stripping.

Venkatesh B: Sir, and my next question is I was actually discussing this tax angle with our Indonesian Bumi resources analyst, and he or she was actually telling me that actually the Indonesian tax office is making claims of roughly around $160 million on KPC, you know for tax evasion in the past.

S. Ramakrishnan: There are two tax issues. One is the tax on delayed interest payments on time, which have been provided for in this quarter to the extent of about $40 million in the total of the coal companies, which is the interest on delayed payment, right. And there is also what is called a penalty like in India, you know that when don't pay some tax, they claim some interest on you, there is a penalty, which has finally been either been crystallized or waived. There has been no provision made for penalty at this point of time though provisions have been made for interest on delayed payments of tax.

Venkatesh B: What about the tax which has not been paid, have you at least provided for example, if what I understand…

S. Ramakrishnan: All the taxes have been paid for, interest on tax has been provided for 2008, which is what is due. Penalty has not been provided for. There is some discussion whether there is any interest on delayed payment of 2007 tax that is payable. That is an issue that is under current discussion with the authorities.

Venkatesh B: Okay. Thank you very much sir and all the very best.

S. Ramakrishnan: Thank you.

Moderator: Thank you. The next question is from the line of Tien Doe from GIC. Please go ahead.

Tien Doe: Hi, good afternoon, thank you very much for having this call. I got a few questions again on the coal, the extra coal stripping provision. My first question is on the prepaid current asset that you have written off, has that been written off down to the zero?

S. Ramakrishnan: No, it's not been written off to zero. The write off, if we take both companies, what is left in the book is roughly 50% of what we have written off.

Tien Doe: Okay. The second question is in that review that you have just done, would you be able to give us any details of the assumptions you have made on long term stripping ratios, long term realization rates?

S. Ramakrishnan: It varies from pit to pit. I will have to get back to you separately on what is the long term price of coal that has been assumed in the JORC Report.

Tien Doe: Okay. The third question is just on, if coal prices continue to trend up, you said you are actually perhaps getting a realization higher than the averages you have been able to do so far this year. The likelihood of that you would again have a review that would actually mean that you have a current liability on your balance sheet from extra stripping cost provisions…

S. Ramakrishnan: Not likely…

Tien Doe: That possibility is remote?

S. Ramakrishnan: The revision in the long term stripping ratio as a practice is something that you do whenever you do a new reserve statement. This 2009 one we did because there is an expansion plan that is under consideration, so the authorities do need a latest reserve statement to justify the increased levels of production that you are seeking approval for. So whenever these reserve statements are done periodically, (they are either done once in two years or a year) it is purely decided by, if there is a significant change in price outlook, then it is done. So what I told you about the price increases going northward is something that is not abrupt, it is gradual. So our revision in stripping rate is something which will be done only if there is a periodic review of the report. Supposing we do a report in November 2010, then after the receipt of the report, if the strip ratios are different from what is in this report, naturally there will be an adjustment that is done for whatever we are holding in the current assets and going forward.

Tien Doe: Okay. And so you said, you know you do these revised reserve statements whenever you are thinking about changing the volume coming out of the mine, KPC or Arutmin, they are thinking about increasing the volumes coming out of those ones or..?

S. Ramakrishnan: There is a proposal which regulatory authorities for permission to increase the production volume.

Tien Doe: Would you be able to give you us an idea of what…?

S. Ramakrishnan: We are producing today about 60 million, there is a plan to move from 60 to 75 to 100.

Tien Doe: Right okay. Thank you very much.

S. Ramakrishnan: Thank you.

Moderator: Thank you Mr. Doe. The next question comes from the line of Mitul Mehta from Lucky Securities. Please go ahead.

Mitul Mehta: My question would be on the domestic power expansion going forward, if you could just take us through the ramp-up, how do we see capacities coming on line?

S. Ramakrishnan: See as we explained in the last call, we are in the process of completing both Mundra and Maithon. We are targeting Maithon for October, Unit 1 525 MW, March coming year, another 525 MW. As far as Mundra is concerned, we are contracted to supply by September 2011 though we are trying to see if we can advance it by a couple of months. And then we are contracted to supply, I think, commence every five months one unit going forward which will add 800 MW each. So as per that plan, the MW in terms of EOY is 3104 MW by 2010 I think by March, 4242 MW by 2011, 5842 MW by 2012 and 8242 MW by 2013.

Mitul Mehta: Sir my second question would be in terms of the overall mix between long term PPAs and you know certain assets we would want to keep it open to take the benefit of the higher power prices, so what will be your take on that sir?

S. Ramakrishnan : Whatever we are implementing at this particular point of time, we do not have very substantial merchant as you know we have about 200 MW between Unit 8 and Haldia plus about 400 MW that will be coming out from 1st of April. Going forward, it is only in the next expansion plans that they are planning in both Mandakini Coal and Tubed project that we will be creating certain capacities which will not be for long term PPA. But our view is, our percentage of merchant of the total portfolio is more likely to be in the band of 10%-20%, it's not likely to exceed those numbers as we go forward.

Mitul Mehta: And sir, in terms of securing the entire raw material linkage for all the power expansions going forward, do we have enough coal with us?

S. Ramakrishnan: Going forward, we are doing a project in western Maharashtra for which we are importing coal, so you can say we have coal for that. We are setting up a project in Orissa based on Mandakini Coal, our intention is to, 50% will be from our own captive mine and 50% will be from linkage coal for which we don’t have the coal allocation as yet so that is something. Similarly we are setting up in Jharkhand a power plant which is 50% based on our own coal and 50% from linkage. So if you see except for about 1000 MW for which we don’t have fuel, the rest of it you can say either we are importing or we have fuel from our own mines. And of course our solar projects and wind projects always have fuel.

Mitul Mehta: And sir in terms of cost per ton, I mean your earlier statement of $30 is now a sustainable number going forward, would you see some more inflation on that front?

S. Ramakrishnan: Purely linked to cost of oil. I have been saying in every other release of ours that almost about 50% of our cost of production is influenced by cost of oil. And there was a time when mining as an activity was happening all over the world, it was pushing up the mining services cost to some degree but that I think at the moment is under control, it's not only coal mine even other types of mines. So it's truly a function of oil. The oil goes up, our cost will go up.

Mitul Mehta: And sir my last question would be, since you are fairly familiar and have been operating in Indonesia, do you see any threat to regulatory changes in Indonesia from the point of view of coal being exported to India?

S. Ramakrishnan: See every country will demand that their resource be first made available to their own domestic requirements, so that pressure will be there. But as you know, Indonesia uses a large part of the sub-bituminous or eco coal as it is called because they are low CV, high moisture, less transportation cost because they are domestically used while the export of the higher varieties will continue. But there will be a certain obligation on people to make sure that they do supply the domestic requirement.

Mitul Mehta: Thank you very much sir.

S. Ramakrishnan: Thank you.

Moderator: Thank you Mr. Mehta. Participants are requested to limit their questions to two per participant during the initial round. The next question is from the line of Abhishek Tyagi from CLSA. Please go ahead.

Abhishek Tyagi: Sir, one question related to the Trust Energy expense which you said of 70 crores during the quarter which was classified as a coal expense during the quarter and sir previous prior quarters, was it a part of the power expenses?

S. Ramakrishnan: Actually (a) there was not a substantial consignment, (b) you are right, it was a part of the power expense; we just noticed it as we were going through. Henceforth we will classify it as a power expense because it is ultimately meant for the Trombay Power is not traded.

Abhishek Tyagi: Okay sir. Sir just one question with the new JORC report which has come, has there any restatement of reserves and resources, and whether you can share the data?

S. Ramakrishnan: I would much rather that this is released by Bumi if you don't mind. I have shared a lot of information on this call because of the concern on this provision of 370 crores, probably in violation of the confidently agreement.

Abhishek Tyagi: Okay sir, thanks a lot.

Moderator: Mr. Tyagi, do you have any more questions.

Abhishek Tyagi: No, I am done thanks.

S. Ramakrishnan: Thank you Abhishek.

Moderator: Thank you. The next question is from the line of Avinash Agarwal from Sundaram BNP Paribas. Please go ahead.

Avinash Agarwal: Sir, just a question on Maithon, you mentioned that 63% of the project has been completed, which is same as what it was three months back, so I just wanted to know is there any disruption or any problems?

S. Ramakrishnan: Please understand, normally we update all the domestic projects only after our standalone results are done, so the consolidated results to standalone results are just one month, maybe my investor team hasn't updated it, because we use the consolidated more to talk on the results while the project progress is covered during our standalone analyst call. Okay? So there has been no disruption in the project; it is proceeding and you can see what we said during the last standalone in here, maybe the difference is marginal, in which case it's only four weeks of work because we had our standalone call end of last month.

Avinash Agarwal: Sir I am comparing this to the consolidated results of Q2 sir, so at that time also it was 63%, so I was wondering because that was released in November.

S. Ramakrishnan: I will ask Sandeep to clarify to you, but in terms of progress, the project is progressing and the actual expenditures incurred, have been increasing so there is disruption, at the point I want to say.

Avinash Agarwal: Sure.

S. Ramakrishnan: Whether the 63 we are reporting now is not the right figure or the one we reported early is not the right figure, I will ask Sandeep to clarify.

Avinash Agarwal: Sure sir, thank you. And sir, you mentioned that 350 crores is the stripping ratio what you have written off, but in the numbers we have 370, sir, what's the difference of these 20 crores sir?

S. Ramakrishnan: Frankly, I used a rough number of 370, 20 crores belong to the current quarter. So if you really see of the 370, 5% belongs to the current quarter, whereas the other 350 belong to the previous period.

Avinash Agarwal: Okay. Thanks sir, thank you.

S. Ramakrishnan: Thank you.

Moderator: Thank you Mr. Agarwal. The next question is from the line of Adam Worthington from Macquarie. Please go ahead.

Adam Worthington: Thank you very much gentlemen for your time. I have got a couple of questions. The first one is that you have raised your long term stripping ratio which typically means that you will be paying a little more for the overburden removal. In light of the long term cost structure of KPC and Arutmin do you think that there are any offsets against this, for example, cost savings, installing conveyor belts in there or alternatively through selling higher calorific value coal for example, in the reserves that you found, is there more Prima coal or Pinang coal which is of higher quality versus kind of lower quality eco coal or something like that. My second question relates to your average selling prices going forward here that if there were $70 benchmark prices last year and kind of $90-$95 being realized over the next 12 months, will you be able to benefit from that full 25% - 30% increase in your average ASP, assuming coal prices stay where they are. Thank you.

S. Ramakrishnan: Yeah, to the first question, the calorific value of the weighted average of what we are likely to produce in the coming year is not going up in any significant way.

Adam Worthington: Sure.

S. Ramakrishnan: We are as a part of the infrastructural planning, before the fuel expansion is being planned, adding a conveyor belt to reduce the cost of coal that is being sent to the port. So there will be a certain reduction in the coal conveying cost. What is being conveyed today through trucks and other methodologies, particularly in Arutmin and little bit in KPC, as the production of coal goes up we are creating additional capacities for coal conveying and in fact we are even creating capacity in the ship loader as a phase II of the expansion plan. So there will be some phasing in logistics movement of coal to the port. The second question I just want to clarify some numbers. When I talked about $90, it is the benchmark price for 6,200 CV coal. Our average CV value is lower. Instead of 6200, I think it is about 5600 in terms of the coal that is being produced. And hence when you talk of the price increase, has price gone up in the last three months by 25%? No. The price increase that we are talking about of 90 odd dollars probably has moved up from the 75-80 range to the 90-95 range. So you will see that is the type of percentage increase. Third, will all the percentage increase come to us? As we know the total sales of ours, there are certain parts that are always committed to the older prices and certain parts that will benefit from the future prices. So if you really see the ratio is probably somewhere between 40-60%, 40 is already committed so it won't move when the price goes up, 60 is something that will move. So there is always a lag between the actual price increase and our effective price increase that happens because of the way the contract is structured.

Adam Worthington: Okay right. One final question, just what's an effective tax rate on the KPC and Arutmin assets should we would be thinking about, Is it still in that 35%-40% range?

S. Ramakrishnan: I think 45% is the tax and we do get some set off for management and technical services that the promoters render at this point of time.

Adam Worthington: Right. Thank you very much for your time gentlemen.

S. Ramakrishnan: Thank you.

Moderator: Thank you Mr. Worthington. The next question is from the line of Shashi Kiran Rao from Standard Chartered Capital Markets. Please go ahead.

Shashi Kiran Rao: Thanks for taking my question sir. Just one issue on Powerlinks results - your profits have gone up from around 12 crores to 34 crores in YoY…

S. Ramakrishnan: Previous year figure was based on the earlier regulation. As you know CERC revised its regulation from 1st of April 2009 and hence the results are not to the extent comparable. Earlier we used to get advance against depreciation, now we will only get the depreciation. The second is there is a certain deferred tax reversal that has been done in the accounts this quarter, so 34 impact is 24 to 12 if you compare on a like-to-like basis and that is due to tariff increase.

Shashi Kiran Rao: Okay so this is only on off …

S. Ramakrishnan: Yeah the 10 crores of that is one off.

Shashi Kiran Rao: Right. So the rest of the increase in PAT has been effective from the first quarter itself, and only 10 crores has been exceptional in this.

S. Ramakrishnan: That's right.

Shashi Kiran Rao: Right. Any my second question is on the 510 crores of adjustments that we need to do. Which of these are recurring adjustments and which of these are one-off adjustments? I am referring to the coal mines.

S. Ramakrishnan: As we told you, if you take on a YTD basis, about 20% of the 370 is recurring.

Shashi Kiran Rao: Right.

S. Ramakrishnan: Right and of the remaining, this is not recurring, maybe about 30 crores of it which is increased staff cost is recurring.

Shashi Kiran Rao: Can you throw some light on this particular 70 crores elimination of coal inter-segmental transfer?

S. Ramakrishnan: See what's happened is that we have a subsidiary in Singapore that does the trading. It has the revenue from the coal trading which gets eliminated between its revenue and the revenue of the coal companies and it has as coal cost, the money paid to the coal companies and charged to the Trombay unit of ours, right. So strictly speaking that coal consumed by Trombay should have gone as cost of power. Because it has come through Trombay, they have classified it as cost of coal company. So strictly it is an adjustment of 70 crores. The PBDIT of power would have gone down by 70 crores and PBDIT of coal operations should have gone up by 70 crores. It is inappropriate treatment in our consolidation which will be rectified in the coming quarter.

Shashi Kiran Rao Right, so actually if I understand your 70 crores should have been eliminated from the revenues of the standalone subsidiary, I mean standalone unit?

S. Ramakrishnan Let me look at it this way. If you look at the PBDIT of my power company for this quarter you reduce it by 70 crores and increase my coal profit by 70 crores. That is the mix between these two.

Shashi Kiran Rao Thanks a lot.

Moderator Thank you Mr. Rao. The next question is from the line of Pankaj Sharma from UBS, please go ahead.

Pankaj Sharma Sir very fundamentally this charge of 370 crores and you say that there is an increase in the reserves, so it is a good thing or it is a bad thing. Like if you have corresponding increase in the results and you probably are going to mine more coal and even if you have a temporary hike in the stripping cost which you are taking as a write-off it should be a good thing ideally…

S. Ramakrishnan See in terms of cash cost it makes no difference because the coal companies do incur these cash expenditure to lift the coal from the pit. So from a DCF basis all these have no impact but from a profitability point of view, if you truly look from an accounting perspective, there is. Because the long term strip costs are higher the mining cost reported will go higher by about $1.4 per ton.

Pankaj Sharma Right sir but on a mined basis let us say…

S. Ramakrishnan On an overall basis in our view it is neutral, probably it is little positive because whatever expenditure you write-off you do have a tax saving of 45%.

Pankaj Sharma Right but as a mine let us say earlier you were going to produce 100 tons and now you are going to produce 110 tons so is it positive from a volume for reserves perspective?

S. Ramakrishnan Reserve is a function of long term volume, whereas what you are going to earn as revenue is what you will produce now. So reserve has a certain value to the company but may not immediately impact the profitability of the current year.

Pankaj Sharma Exactly, okay sir. And one more question sir, there has been news report that the 500 MW which you are going to get available because you are not going to supply to Reliance Infra from 1st April, you are going to supply it to Maharashtra SEB. So would it include customers you would have acquired in the Bombay circle or entire….

S. Ramakrishnan See we have given 100 MW of that to BEST through a PPA which is yet to go through the regulatory process of approval. We have made available 160 MW out of that to our own distribution to handle the increased load coming out of switching customers at regulated, you can say somewhat linked to your regulated rate. What we have said is that we will give you up to a 160 MW. If you do not need it, we have a right, i.e. the generation division has a right to trade it the way they want but if you consume it, it will be at a regulated rate. That is a sort of an arrangement made for the year FY11. And the remaining we have told the Government of Maharashtra that with a 90-day notice we prefer to make it available to Maharashtra including Bombay but if they do not take it we are free to offer it to others.

Moderator: Thank you Mr. Sharma. The next question is from the line of Bhavin Vithlani from Enam Securities, please go ahead.

Bhavin Vithlani Sir a couple of clarifications. You highlighted that the production now would move up from 60 million tons to 75 and to 100 million tons so could we take that 75 million tons would be production for the next fiscal?

S. Ramakrishnan See the expansion plans need to go through an approval process with the government and at the moment the approval process, we expect, we will get the approval sometime in October to December timeframe, after which the expansion will be effective.

Bhavin Vithlani But if we take the current quarter's run rate of 17 million tons could it be fair to assume that….

S. Ramakrishnan For FY2010 I think we are planning at 66 million as a target for the production value.

Bhavin Vithlani And would it be roughly 70-72 for the next fiscal?

S. Ramakrishnan See the next fiscal is a function of getting approvals. As we said that the debottlenecking of certain infrastructure will be necessary for the production to go up further because today at 66 all our current resources are pretty stretched in terms of the various facilities like the conveyors and others.

Bhavin Vithlani So how soon can we move to 75 million tons?

S. Ramakrishnan We expect that that is something that we will be probably be reaching towards the end of 2011 or second half of 2011.

Bhavin Vithlani Second question is recently we hear about new long-term contracts being signed. So two questions to it. What proportion of the coal mining sales are on long term and if we have entered into any long term contracts in the recent past, what is the rate at which the long term contracts have been signed?

S. Ramakrishnan See you must understand there are long term contracts that are already signed for a fairly substantial part of our production, probably 70-75%, but those prices are set once a year, okay. Price setting process happens over different periods of time so if you would ask me today, how much of the 2010 contracts have been priced, probably 30-40% of the contracts have been priced whereas the remaining contracts we get priced as we go along and around the pricing time you decide the price based on whatever is the outlook at that point of time. So that is why when I say 60% of our production is not contracted, the real legal word should have been it has not been priced.

Moderator Thank you. The next question is from the line of Sumit Agarwal from HSBC, please go ahead.

Sumit Agarwal Oh yes sir, just wanted to check in terms of your Powerlinks business if I look at the profitability has increased significantly not only on YoY basis but on a quarter-on-quarter basis also so what is the reason for a quarter-on-quarter basis increase?

S. Ramakrishnan I do not know whether you were on the line when we were sort of telling you that this quarter has a certain deferred tax reversal of 10 crores. This business has very predictable profitability. You shake me in the night and wake me up I surely will tell you what is the profit without asking anybody.

Sumit Agarwal Also sir just regarding this 'no long term contract' that we were talking of, what are the prices there? Have you have indicated any prices?

S. Ramakrishnan	For coal?
Sumit Agarwal	Yes for coal.
S. Ramakrishnan	The only statement that I made was, recently, in the last couple of weeks we have had certain contracts which have been priced on a benchmark price, of about $90-94 is what it is right now. That does not mean I am selling all my coal at that price.
Sumit Agarwal	Okay. And sir based on this new JORC report, what has been the increase on your stripping ratios if you can, it is a one or two….
S. Ramakrishnan	What we have said is the increase in the repetitive cost of stripping has been an extra $1.4 / ton.
Sumit Agarwal	Okay that is it from my side.
S. Ramakrishnan	Thank you.
Moderator	Thank you. The next question is from the line of Shilpa Krishna from JP Morgan, please go ahead.
Shilpa Krishna	Good afternoon everybody. My question is once again is on the JORC report and my question is going forward is there going to be a more periodic or more frequent review of these important aspects compared to you know once in three and half years in the past?
S. Ramakrishnan	Let me put it this way. We do JORC reports periodically. One was 2006 before we acquired the company, the second one was 2008 and the third was in 2009. It is just that in those days the belief of the owners was that the transfer pricing mechanism that they had with the company in Cayman Islands was perfect and it is not subject to any tax and hence there was no pressure on them to review the stripping cost; whether they should really be held in the books or be written-off. With full clarity now on taxation that you need to pay 45% on the tax on the profits you make, may be you can provide for a certain management fee or technical fee, but other than that you have to

pay on including what you sell outside and through the Cayman Island Company of ours, it was felt that it makes more logical sense to revise the provision of the strip cost based on the latest JORC Report. And this process will be repeated probably once a year or once in two years depending upon how the long term cost and price structure of coal changes from time to time.

Shilpa Krishna Okay, sir that is very clear. Also one small observation if this report was published in November 2009, was it publicly available? Is there any way this could have been briefly communicated to the exchanges so that you know they don't come as a surprise on the day of the results?

S. Ramakrishnan JORC Report is not a public document. It is highly confidential document and since the results are finalized every quarter, this quarter since that report is available the effect was given to it during this account.

Moderator Thank you sir. The next question is from the line of Krishna Kumar from Prudential, please go ahead.

Krishna Kumar The question pertains to what Bumi has provided till date as deferred stripping expenses amounts to about $490 million. Is there a reason why you would not have provided this earlier because this is for a period of nine months that they already provided for?

S. Ramakrishnan Where have they provided this?

Krishna Kumar It is there in their 9-monthly result the total $490 million which they have provided as ...

S. Ramakrishnan Whatever is provided in the accounts of the coal company that are approved by the Board on which I sit, we provide in our consolidated accounts. So I am not very sure what you are referring to but I can make a statement that the consolidation of ours is based on the accounts that are approved by the coal companies in their board meetings on which I sit so I am not fully able to make out your question. If your question is that they have provided but why did not you provide, I am just saying that whatever has been provided in the coal company's account have been provided in our consolidated accounts.

Krishna Kumar Okay, thank you.

S. Ramakrishnan In fact I just want to say that Bumi has not yet announced the results for the period ending 31st December, 2009. So when you say they have provided I do not what results you have seen and what you are asking but offline we can provide you any clarifications you need once I know what document you are referring to.

Krishna Kumar For a nine-month period the numbers that are available is $489 million as deferred stripping expenses…

S. Ramakrishnan Written-off or capitalized and held as current assets?

Krishna Kumar Held as current assets

S. Ramakrishnan What we are seeing is that was for the 9 months ending September. So when we came to December, the 490 in fact went up to 500 and something of which a certain part has been written-off. 30% of which converted to rupees is what is appearing as 370 crores. So we can do the tally if you want offline but ours is for period till December and this is written off what you are reading is what is held in the current accounts as of September. So offline if you communicate with our team we can provide you the clarification or wait for Bumi to announce their annual results then you will know.

Krishna Kumar Sure, thank you.

Moderator Thank you Mr. Kumar. The next question is from the line of Murtaza Arziwala from Kotak Securities, please go ahead.

Murtaza Arziwala Hi sir, just to clarify again on the deferred stripping cost. One is that you know there would have been an amount of deferred stripping cost which would have already been incurred and based on the reassessment it has been found prudent to apportion it to a certain amount of past production. But besides the P&L entry of you know allocating a higher proportion of deferred stripping cost, is there any actual higher expense which would be incurred and to what extent based on this revised stripping ratio because eventually there would be a higher stripping cost which would be incurred, right.

S. Ramakrishnan I was not sure whether you were on line when we did mention so based on the revised shipping cost the cost of mining goes up by $1.4 per ton.

Murtaza Arziwala I was there for that one, but that $1.4 you know how much of it would be actual incremental cash cost incurred versus an accounting entry of….

S. Ramakrishnan Cash cost you need to check the balance sheet to see what cash cost is incurred so if you have in current assets deferred stripping going up, then that is a part of the cash cost, it is not reflected in the P&L.

Murtaza Arziwala Okay, but what would be the impact sir if you could just give us you know a guideline as to what would be that impact of the actual cash cost going up because of the reassessment of reserves?

S. Ramakrishnan We have written down whatever is the provision, see the provision the other gentleman was talking about $400 odd it went up to $500 odd million. We are now less than 190 million or so in the books which is close to about 2/3rd has been written of, only 1/3rd has been retained.

Moderator Thank you sir. The next question is from the line of Madan Gopal from Centrum Broking, please go ahead.

Madan Gopal Sir good afternoon. Thanks for taking the question. I just wanted to recheck two numbers. One is our gross realization for the quarter from the coal mining is around $60 per ton that is what you said?

S. Ramakrishnan Around that much, yes.

Madan Gopal And then the cash cost of production last quarter you said it is $31 per ton. This after adjusting for all the one-time adjustments which we are talking about the deferred stripping cost, increasing to $32.5 per ton that is what you are trying to say when you saying that 1.4 per ton?

S. Ramakrishnan Roughly, yes.

Madan Gopal Thank you sir.

Moderator Thank you Mr. Gopal. The next question is from the line of Jaideep Goswami from Daiwa Capital, please go ahead.

Jaideep Goswami Yes sir, just wanted to understand a little bit better the cash flow situation in the coal mine. What is the current debt at SPV level right now and how much is paid off? Is there any dividend payment received this quarter if you can give some details on the cash flow scenario this quarter?

S. Ramakrishnan The loans today stand at I think between the recourse and the non-recourse $717 million and during the quarter the amount received from the coal mines is $7.2 million is what has been received in this quarter. See this year we have received far less amount than the previous year because the coal companies had to pay tax and they have conserved cash. So this year so far we have received $65 million cash from the coal companies compared to last full year $252 million.

Jaideep Goswami This is 9-month figure, 65 million.

S. Ramakrishnan This is a 9-month figure, yes.

Jaideep Goswami And another macro question I have is that Bumi has recently allowed CIC to take $2 billion debt exposure in their business. So just wanted to understand does it anyway impair any of our rights or like they have got this company into the coal mine or it is invested in the Bumi at the parent level?

S. Ramakrishnan They have given loan at the parent level, they do not have any equity even at the parent level and they have nothing at the coal company level.

Moderator Thank you sir. The next question is from the line of Vishal Biraia from B&K Securities, please go ahead.

Vishal Biraia Sir, my questions have been answered, thank you.

Moderator Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund, please go ahead.

Rakesh Vyas Ya, hi good afternoon sir. Sir, just one question, I wanted to understand that the proposal for increased production that has been given to regulator. What kind of CAPEX has been envisaged, I mean, will there be a net cash outflow from the standalone company to coal mine at least for our contribution is concerned?

S. Ramakrishnan Substantial part of the capital expenditure is being planned to be done through some form of leasing arrangements, so that is a cash flow, (a) no cash flow is needed from the share holders and (b) the cash flow that is being given to the share holders is tried to be maintained to a large extent.

Rakesh Vyas Okay, okay. But in terms of the infrastructure development also will that be also on leasing part because…..

S. Ramakrishnan It will also tried to be done through some form of leasing.

Rakesh Vyas So in effect we would probably be getting similar kind of cash inflow into the SPV?

S. Ramakrishnan That is objective. We are trying to create an SPV which will create some of those infrastructures and make it available on a rental to the coal companies. The SPV will be owned probably by the same shareholders and the SPV we will borrow.

Rakesh Vyas But will there be any impact on the taxation purpose, I am just trying to understand, does that amount to any saving in tax rates?

S. Ramakrishnan The rental charge will reduce the tax and as we know CCOW companies have a 45% tax while normal Indonesian companies have a 30% tax so there is a certain arbitrage that is available.

Moderator Thank you sir. The next question is from the line of Shankar K from Edelweiss Securities. Please go ahead.

Shankar K Thank you sir for taking my question. Just wanted some balance sheet data for all the subsidiaries that you have both in terms of equity and debt that you have deployed so far across various subsidiaries of yours both….

S. Ramakrishnan Shall we mail it to if you reach Sandeep Tilak of our office he will provide all balance sheet information.

Shankar K Sure. One small follow up on the same, just wanted to know in terms of Mundra Project the original envisaged debt-equity was 25% equity-75% debt. Have you revised that number in some form?

S. Ramakrishnan No, we have not revised this number, it stays 75-25.

Shankar K Thank you. That is all from my side. Thanks.

Moderator Thank you. The next question is from the line of Pranav Gokhale from Religare Asset Management, please go ahead.

Pranav Gokhale Sir $190-odd million on provision which is there in the balance sheet, is that going to be there or will be also be written-off over the next couple of quarters?

S. Ramakrishnan The $190 million provision that is left is based on the long term strip ratio. Whether that amount goes up or goes down depends on the actual mining we do. In the actual mining if the strip ratio is greater than the report, 190 will go up. If the actual mining happens and the strip ratio is lower than the report, 190 will go down. So this is actually a function of what mining takes place which I would not be a position to sort of tell you.

Pranav Gokhale Okay. But all the one-off sort of which were there till date of whatever the date of the results has been accounted for.

S. Ramakrishnan The report has been given effect to.

Pranav Gokhale Okay thank you. I am done. Thanks.

S. Ramakrishnan Thank you.

Moderator: Thank you Mr. Gokhale. The next question is from the line of Yogesh Patil from Canara Robecco, please go ahead.

Yogesh Patil Yeah, good afternoon sir. Sir, what is the moisture content of our coal? Average?

S. Ramakrishnan Which coal?

Yogesh Patil Indonesian coal.

S. Ramakrishnan Indonesian coal we do produce eco-coal also where the moisture is probably 30-35%. We do have coal where the moisture is below 20% like 15% so we have varieties of coal but KPC typically produces a lot of low moisture coal and Arutmin nowadays has started producing high moisture coal mainly for supply to the utilities in Indonesia and nearby regions.

Yogesh Patil Okay, thanks.

S. Ramakrishnan Thanks.

Moderator Thank you Mr. Patil. The next question is from the line of Uchal Debroy from VCK Shares, please go ahead.

Uchal Debroy Good afternoon. Sir most of my queries have been answered, just one query. Sir in this quarter have you recognized or amortized any amount related to deferred development and exploration cost also or is it only related to only deferred strip cost?

S. Ramakrishnan What type of deferred development cost you are talking about. They are not really large in the coal mine. We do some pits which are opened out for exploration but frankly there is a very negligible amount that happens.

Uchal Debroy Okay. Sir will it be possible for you to give the balance of deferred strip cost that is appearing in the books of your coal company?

S. Ramakrishnan About $190, that is 100% and not 30% part. That is 100% part appearing in the coal mine balance sheet.

Uchal Debroy Okay sir. Thanks a lot.

Moderator Thank you Mr. Debroy. The next question is from the line of Ravindra Naik from Systermatix Shares, please go ahead.

Ravindra Naik Thank you for taking my question and good afternoon. Actually I want to know as you made a statement now itself that even the production will go up according the cost of the coal mines will be also going up. Is this the right assessment?

S. Ramakrishnan I am not clear. Can you repeat the question? The production is expected to go up, expansion plans are implemented and this year's target is about I think 7 to 10% higher than last year's production.

Ravindra Naik So you mean to say the margins in this coal mine will also decline due to that?

S. Ramakrishnan We never said that. What we said was that because of the stripping ratio is going up the cost of operation goes you by $1.4 which is not a significant number. Margin is decided by the selling price and the overall cost and as things look today the selling prices have looked to move north.

Ravindra Naik Okay. Sir another thing in this power trading business the CERC has come out with a new regulation, but if you on a YoY basis if you compare the trading margins on EBITDA level it has come down from 0.43% to 0.35%. Can you please throw some light on what is the reason for this?

S. Ramakrishnan This quarter we have had certain provisions in the Tata Power trading account because of one or two transactions where there are some disputes with customers and hence we have decided to make some provisions. Otherwise our margin remains the same, though CERC has lifted the cap the impact of it on our profit and loss will start showing only in the later quarters because overnight we cannot change the contracts, only going forward we need to see. And for the short term contract the large utilities are still willing to pay only 4 paise even though the cap has been removed.

Moderator Thank you sir. The next question is from the line of Abhishek Puri from JM Financial, please go ahead.

Abhishek Puri Good afternoon Mr. Ramakrishnan. Sir, very quickly on the production side, can you give us the third quarter numbers for coal production as well as the inventory?

S. Ramakrishnan The inventory I do not know off hand, coal production I think we did sort of review coal mined in October - December at 18.46 million tons.

Abhishek Puri Sir second question was on Mundra coal supply, when does agreement start and the coal supply will start and how much has been imported for Trombay currently?

S. Ramakrishnan Today Trombay imports close to 3 million tons of coal of which only one million is supposed to be from the Bumi coal mine and probably we have so far imported 200,000-300,000 tons. Mundra contract whenever the units are ready they will start getting supplies. Since we are targeting to have the unit ready sometime in September 2011 the coal supply probably will start about six to nine months before because we need to build some stocks and we need it even for testing / commissioning purposes also.

Abhishek Puri Okay so by start of the next year we shall get the supply…

S. Ramakrishnan Early next year we will start utilizing this contract to start importing coal into Mundra.

Abhishek Puri Okay. Any chances of this $190 million provision being written-off in the coming quarter or it will depend again on the separate….

S. Ramakrishnan See as we told you out of the total write-offs that we have done only 5% pertains to this quarter. So even if you say history repeats itself, it is not that there is going to be a new JORC report next year. If you are writing-off it will be 5% of whatever you are talking about, so there is no question of 190 million being written off next quarter.

Abhishek Puri Okay, and on recurring basis you said $1.5 will be the cash cost increase.

S. Ramakrishnan Yeah, 1.48 or something like that.

Abhishek Puri If we do the mathematics I think it is coming out to around $1.3 per metric tons so if you can or I will get in touch with Sandeep.

S. Ramakrishnan You ask Sandeep we have done some calculations because you need to see that what is appearing in my balance sheet is only 30% of the total, so if we have divided it by 100% production then we have a problem. So you need to sort it out separately offline with Sandeep you can sort it out. If it is low then what I am telling you, you should be happy.

Moderator: Thank you. The next question is from the line of Anupam Tiwari from Reliance Mutual Fund, please go ahead.

Anupam Tiwari Sir good afternoon. Sir just wanted to understand in your 9 month numbers the deferred stripping cost is 244.81 crores and for the quarter it is 370.67, can you please help me to understand the reconciliation between the two?

S. Ramakrishnan See in the earlier quarter since the deferred stripping write-off or additions are done on the basis of the earlier report stripping ratio, the stripping costs were put on to Q1 and Q2 also. Whereas the Q3, it wrote down with respect to whatever additions were made in Q1 and Q2 and hence when you look at the nine months number the reduced number is lower than what is done for Q3. For Q1 and Q2 the deferred strips were capitalized more than what was at the start of the year. All of those were written down in Q3. What is written down in 9 months is lower than what is written down in Q3. If you still need clarification offline reach my team they will explain.

Anupam Tiwari Okay. So what I am understanding is that this 9-month number would be cumulative of Q3 is not the actual understanding…

S. Ramakrishnan It is cumulative of Q3. In Q1 and Q2 they did not write-off. They capitalized deferred stripping cost. You know I told you that deferred stripping when it happens, if the strip ratio actual is greater than what is planned they take it to the current assets. They add to the current asset. So in Q1 and Q2 the current asset which is a deferred stripping cost went up. And in Q3 we wrote down. So the Q3 number brought Q1, Q2 numbers also down and hence in the YTD number what is written-off is lower than the Q3 number. Because in Q1 and Q2 it was plus and plus, in Q3 just minus. And hence in YTD the minus is lower than the Q3 minus .

Anupam Tiwari Okay. Thank you sir.

Moderator Thank you Mr. Tiwari. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor back to the management for closing comments, please go ahead sir.

S. Ramakrishnan Thank you very much for your patience and listening. We will back again when our annual results are announced sometime in May. Thank you.

Moderator Thank you gentlemen of the management. Ladies and gentlemen on behalf of Tata Power that concludes this conference call. Thank you for joining us and you may now disconnect your line.