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“Tata Power Limited Q1 FY11 Earnings Conference Call”

**August 12, 2010**



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C H O R U S C A L L ®

**MODERATORS:**      **MR. PRASAD MENON -- MANAGING DIRECTOR -- TATA POWER LIMITED**  
**MR. S. RAMAKRISHNAN -- ED FINANCE -- TATA POWER LIMITED**  
**MR. S. PADMANABHAN, ED OPERATIONS -- TATA POWER LIMITED**  
**MR. B. AGRAWALA, ED, BUSINESS DEVELOPMENT & STRATEGY -- TATA POWER LIMITED**

**Moderator**

Ladies and gentlemen good afternoon and welcome to the Tata Power Q1 FY11 Standalone and Consolidated Results Conference Call. Joining us on this call today from Tata Power are Mr. Prasad Menon, Managing Director, Mr. S. Ramakrishnan, ED Finance, Mr. S. Padmanabhan, ED Operations and Mr. B. Agrawala, ED, Business Development & Strategy.

As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

At this time I would like to hand the conference over to Mr. Prasad Menon. Thank you and over to you sir.

**Prasad Menon**

Thank you and very good afternoon to all of you. Very happy to welcome you to the analyst call for the FY '11 standalone and consolidated results for the Tata Power.

Our operations continue to be stable and all our major expansion projects are progressing well. The line by line explanation of our financial statements has already been circulated to all of you and our Finance Director, Mr. Ramakrishnan will take your questions on the financials shortly after I give you a few highlights.

During this quarter we signed an agreement with Olympus Capital Holdings Asia to raise \$300 million in our coal SPV. The proceeds would be used to invest in another coal mine or more than one or to pay down the debt. Olympus Capital will be issued Class B shares without dividend rights which are subject to a five-year capital protection arrangement unless converted into ordinary shares with dividend rights. At the end of five years, Olympus has to either convert to regular shares or avail the capital protection option. We have sought our lenders approval for the transaction and we hope to complete the transaction this quarter.

We have seen improved realizations on coal in this quarter. In our Mumbai operations, we continue to supply 200 MW to Reliance Infra.

We are now able to supply 100 MW to BEST under CPA and another 160 MW for our own customers in Tata Power distribution.

We are awaiting a decision on our challenge against the SLDC/Government of Maharashtra for not scheduling power as per our requirement.

In this quarter we have added over 18,000 customers. With this retail customer base in Mumbai has now reached the 75,000 mark.

Now let me just take you through the major projects. The Mundra UMPP has progressed well. It is about 59% complete on an overall basis and is on track till date to commission the first unit well in advance of our commitment of September 2011 for Unit I. All the engineering packages have been ordered and 94% of the hard costs have been committed. The boiler feed pumps have been erected and the erection was TG and auxiliaries are in progress.

Another major milestone has been achieved with the charging of the cooling water intake channel. Coal and ash handling systems as well as other civil works are also on track. The new coal jetty with ship unloading facilities is expected to be ready by the end of this year. Coordination meetings with Power Grid are being held for timely readiness of the 400 kV evacuation lines.

In Maithon we have now completed about 85% on an overall basis. Unit I turbine erection has commenced and is expected to be commissioned later in 2010. The FSA with Bharat Coking Coal has been signed for 1.6 million tonnes per annum and other FSAs are under discussion.

As we have mentioned earlier with Delhi-Kolkata corridor being planned, land approval has undergone some modifications and would require an additional CapEx of about Rs. 380 Crores. However, coal transportation from BCCL Mine by road which is a distance of only 15 Kms is being worked on to ensure timely commissioning.

Under our joint venture with Tata Steel IEL Unit 5 in Jojobera was synchronized in April and full load tests are underway to prepare the units for commissioning in this quarter.

In our Bhutan project, Dagachhu, ordering for the project has been completed and contractors have been mobilized at site. Excavation activities for access tunnel, surge shaft, etc., are on and all statutory land, water, and environmental clearances have been obtained. PPA for the entire quantum of power has been signed.

Let me take you through the two coal blocks now – Mandakini and Tubed. For Mandakini, all the major clearances have been obtained and environmental clearance efforts are in progress. Land acquisition for the power plant at Naraj Marthapur near Cuttack, linked to these mines is progressing well. We expect land acquisition activities to continue through this year. In our Tubed coal block in Jharkhand and the corresponding IPP we have applied for environmental clearance. Railways have given us an in-principle clearance for transportation of coal from the Tubed coal block and timeframe for the Tubed IPP will be firmed up once the land acquisition progresses further.

In Dehrand in Maharashtra, the High Power Committee of the Government of Maharashtra has approved the land compensation proposed through the District Collector and mandatory joint measurement of the land before starting payment has been done. Disbursements have also begun. Activities for award of contracts for main plant and related site enabling works are in progress and we are evaluating various additional off-take arrangements for securing the coal required for the project.

Thank you very much. I now hand you back for questions on the financial performance.

**S. Ramakrishnan**

Before the questions we just wanted to tell you from henceforth we will be publishing both the standalone and the consolidated results within six weeks of end of quarter and these have been mailed individually to you both the consolidated and standby as well as our explanation of the variations and the segment results along with the subsidiary performance. So I now hand back for the question and answer session.

**Moderator**

Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Madan Gopal from Centrum. Please go ahead.

**Madan Gopal** Sir, my first question is on you have mentioned on the analyst presentation that decrease in PBIT power business is due to 199 Crores due to impact of ATE/MERC orders. Can you take us through what is that exactly?

**S. Ramakrishnan** Last year we received an order from the ATE and MERC which impacts certain previous years and added to our revenue and profitability by almost 230-odd Crores. So that is why whenever we talk about this, it is run through in the standalone, it will run through in the segment results also. So the explanation that we have given is so that when you compare you need to keep in mind that we have a sort of a non-repetitive entry during the previous year Q1.

**Madan Gopal** Okay. Sir, my second question is on Mundra project. Sir, when I go through the bid tariff that has been made item by item and convert into INR I get the total bid price as only Rs. 1.80 while the regular tariff is Rs. 2.26. Am I missing out something here or is it like what is that I am missing out?

**S. Ramakrishnan** See, the bid tariff means it is an evaluated tariff and there is a method of evaluating the tariff. The way in which we escalate the various items are defined in the evaluation process as well as the method of discounting is also given. So you need to convert what we have bid into that evaluation model. So you might have missed certain inflation factor which is why you are landing probably with a lower tariff or you might be using a different discounting percentage.

**Madan Gopal** Okay, sir. I will take this question personally then I put....

**S. Ramakrishnan:** Yeah you can take it offline with some of our people because this is what is called an evaluated tariff, probably in no year it will be the Rs. 2.20.

**Madan Gopal** Okay. Thank you sir, thanks for taking my question.

**Moderator** Thank you. The next question is from the line of Venkatesh B from Citigroup. Please go ahead.

**Venkatesh B** Yes, sir. Firstly, there is this 154 Crores exchange rate loss in Mundra UMPP, obviously if you look at the consolidated numbers that can get adjusted at the gain on exchange kind of line item level, now does this

also get adjusted I mean, do you include this gain on exchange when you are reporting the power business segmental PBIT?

**S. Ramakrishnan:** No, I believe since this project is under construction still this has gone under unallocable income/expenses. Ideally, when the project is commissioned, if that happens probably it would have come under the power segment, but in this quarter it has gone under the unallocable expenses or income.

**Venkatesh B** Okay. Just again, on your KPC and Arutmin kind of functioning, what was the sale amount in terms of quantity of coal sold, what were the realizations, cost of production, what is the exchange rate we need to use, what is the SPV level profits, what is the loan at the SPV level and what is the cash balance?

**S. Ramakrishnan** Wow! You are asking more questions than my Board. The production this year was about 15.3 million tonnes compared to 15.1 million tonnes a year ago. Sales were 15.1 million tonnes compared to 14.3 million tonnes a year ago. Net realization this year was US\$63.7 compared to US\$53.8 earlier. The coal SPV profitability of all the SPVs of ours combined remained the same, it is somewhere around \$7 million.

**Venkatesh B** It was \$7 million last year also, sir?

**S. Ramakrishnan** Yes, this is regarding our holding companies

**Venkatesh B** You mentioned last year's realization was around US\$57, right sir?

**S. Ramakrishnan** Yes. This is coal SPV performance, not the joint venture performance, I do not know which one you ask.

**Venkatesh B** I ask the coal SPV sir.

**S. Ramakrishnan** SPV I told you, the profit of this quarter of all our three SPVs through which we are holding this investment I think it is somewhere around \$7 million and last year was probably \$0.2 million or \$0.3 million less than that. I will give you the correct figures. It is \$7.9 million this year as against \$7.5 million last year.

- Venkatesh B** Sir, a little bit of confusion, as I remember last year in the conference call, you had mentioned it was 8.5, that is why there is a confusion because it adds up to your last year full year number of around 110.2, if you use 8.5.
- S. Ramakrishnan** Coal SPV number is 7.9 compared to 7.5 is what I have.
- Venkatesh B** Okay sir. Now one thing which I missed out is I do not think you mentioned what is the loan at the SPV level and what is the cash balance?
- S. Ramakrishnan** We will mail it to you Venkatesh, because I do not have it off hand. I believe it is only US\$674 million and the cash balance is US\$43.6 million.
- Venkatesh B** Any dividend you got in the first quarter?
- S. Ramakrishnan** Dividend from where to where?
- Venkatesh B** From the coal mines?
- S. Ramakrishnan** No, the coal mines are giving us what is called the management fee. And the only cash flow we have got this quarter is 5 million. As you know last year the coal companies had to pay huge arrears of tax and due to which we have not received any money, the monies are starting from this month, in fact, they have just started from July. In the Q1, we received \$5 million only.
- Venkatesh B** Okay sir. Thank you very much.
- Moderator** Thank you. The next question is from the line of Parag Gupta from Morgan Stanley. Please go ahead.
- Parag Gupta** Hi, good afternoon. Just two questions. Firstly, as far as your coal mines are concerned I would understand this pre-Olympus transaction you were consolidating indirectly 30% of the coal asset P&L, just wanted to confirm from when would you start consolidating a 25.5% stake given the 4.5% would go away to Olympus?
- S. Ramakrishnan** A) The transaction has to happen and B) They have to exercise the option to convert to ordinary shares in which case we will remove their

share from the minority interest. We consolidate the whole lot but remove as minority interest from the consolidated account.

**Parag Gupta** So just to understand till the time they do not exercise a right of converting into equity you will still be....

**S. Ramakrishnan** We will consolidate the whole lot into our account.

**Parag Gupta** Right. There will be a 30% indirect consolidation?

**S. Ramakrishnan** Yes.

**Parag Gupta** And second, just wanted to understand as far as other income is concerned on your standalone side, did you have some IT refunds that you accounted for out there?

**S. Ramakrishnan** Yes.

**Parag Gupta** And would that be about 35 Crores?

**S. Ramakrishnan** We have two effects of the IT refund. One was some interest that we have paid in which came back which is about 27 Crores and then they paid interest, sitting on our money which is another 23 Crores but they appear under two different items. One goes towards reducing the interest expense, the other goes as other income.

**Parag Gupta** Okay.

**S. Ramakrishnan** 27 Crores goes towards reducing interest expenditure and 23 Crores goes to add other income.

**Parag Gupta** Great, thank you.

**Moderator** Thank you. The next question is from the line of Abhishek Puri from JM Financial. Please go ahead.

**Abhishek Puri** Just wanted to understand from you regarding the merchant power sales which would have happened in this quarter. If there are any sales which have happened and what is the realization?

- S. Ramakrishnan** We have got that in mail that we sent you. The MU for this quarter from both the plants add up to 178 MUs from Bombay, 331 MUs is the total of the two.
- Abhishek Puri** Sir, I did not understand. We are buying power for the TPC distribution consumers from outside but we are selling merchant sales also from the Unit 8.
- S. Ramakrishnan** We are selling, yes, we are selling outside from Haldia and Unit 8. And we are buying for the distribution. They are not necessarily at the same time of the day it varies because bulk of our purchase for Bombay is only during couple of hours during the day of the peak whereas our merchant sale out is almost 24 hours.
- Abhishek Puri** Okay. So will it be fair to assume that until the 200 MW comes to you, you will keep on purchasing these amount of units?
- S. Ramakrishnan** Yes, until we get a right to supply ourselves, we will continue to buy.
- Abhishek Puri** And will MERC allows this, because you are doing your internal generation and you are selling it outside, and that is round the clock...
- S. Ramakrishnan** MERC has no jurisdiction over the 100 MW of Unit 8.
- Abhishek Puri** Fair point. Thank you so much. I will come back for other questions.
- Moderator** Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.
- Rakesh Vyas** Sir, a couple of questions if I may. First one is regarding the 150 MW wind project which you are planning in the current year. Just wanted to understand are the PPAs for the capacity already signed?
- S. Ramakrishnan** PPAs are already signed. I will ask Mr. Banmali Agrawala to answer you that.
- B. Agarwala** Yeah, so these are being set up in two places, one is in Tamil Nadu and the other is in Maharashtra. So the PPAs with them will be signed. They are under the state policies so that is really not an issue.
- Rakesh Vyas** Okay. So there will not be any renewable energy certificates generated through the sales?

- B. Agarwala** We propose to sell the power generated from these to the distribution company in the respective states directly.
- Rakesh Vyas** Okay. Thank you sir. And the second question relates to the coal mines. Around couple of quarters back, you have mentioned that the capacity expansion plan has been submitted to government. Can I get the status on the same?
- S. Ramakrishnan** We have received in-principle approval. We are starting to invest in the infrastructure needed to expand the capacity. Capacity is being moved up from 60 or 63 million to 75 and then to 100. 75 target we should reach in the next 12 months to 18 months. These are the Indonesian mines. I hope your question was for that.
- Rakesh Vyas** Yes sir. And sir to reach to this 100 million tonnes what is the CapEx involved?
- S. Ramakrishnan** The total CapEx if you see it is almost close to about \$1.2 billion between infrastructure and mobile equipment. In KPC, a fair share of the mining activity is carried out by the company itself.
- Rakesh Vyas** Okay. And 30% of this \$1.2 billion needs to be invested by us, is that correct...?
- S. Ramakrishnan** \$1.2 billion will be funded by the coal company in the form of project loans or in the form of leasing arrangements. So we are not putting out any money at this point of time from our pocket except maybe can say that the surplus from the coal mines goes down to the extent that they have fund from internal generation, some part of the project cost, not all are funded through loan.
- Rakesh Vyas** And sir is there any tax arbitrage in this mechanism?
- S. Ramakrishnan** There is a tax arbitrage. If we do the structuring of the investment in an appropriate manner there could be a tax arbitrage between 45% to 30%.
- Rakesh Vyas** Okay. Thank you sir. I will get back to you for more questions.
- Moderator** Thank you. The next question is from the line of Sumit Agarwal from MetLife. Please go ahead.

- Sumit Agarwal** Hi, sir. Just wanted to get more clarity on the Olympus deal. Has the deal been signed and have we received some money or what is the status? And when do you expect the money to...
- S. Ramakrishnan** Could you repeat that? Because I was just asking Sandeep whether you were in a new place now.
- Sumit Agarwal** I am with MetLife, sir. It is an insurance. Just wanted to check has the deal been completed, the Olympus deal...
- S. Ramakrishnan** No, it has not been completed, we are awaiting the approval as we see from the conversation Mr. Menon had that we are awaiting the approval of the lenders, we hope to get it by this month to complete the transaction.
- Sumit Agarwal** When can we expect the payment?
- S. Ramakrishnan** Possibly by this month end we will get the lenders approval and we will complete the transaction by this quarter.
- Sumit Agarwal** Also sir, just wanted to check, you said that there is a five-year lock in for the Olympus and there is some capital protection. What happens after five years, if they converted....
- S. Ramakrishnan** After five years, there is a window where they can put the share to us to be bought at a certain multiple of the earnings by us. If they are not to put it towards afterwards we are free from any obligation, only that if they sell they have to offer it to us.
- Sumit Agarwal** Okay. They cannot sell it outside you?
- S. Ramakrishnan** Without offering to us, no. There is some process of we expressing an interest if not they can go out and if that outside price is within a certain range of what we want to buy that they will have to give it to us. We have right to match and take the share.
- Sumit Agarwal** Also in the opening remarks Menon sir has mentioned that you are looking at one or two mines for utilizing this fund . Can you just give us some idea where how much ....
- S. Ramakrishnan** We are looking at some mines in Southern Africa and Indonesia. There is nothing more that I can tell you till we do a transaction.

- Sumit Agarwal** Okay. Also sir, just wanted to check when are you going to the Board for the coastal project investment approval?
- S. Ramakrishnan** We are targeting towards the Q3 this financial year rather the end of this calendar year. The land acquisition, disbursement of funds have started, we believe we should be able to sort of get a substantial part of the land by September/October timeframe in which case we see a Q4 calendar the year, this year we may take it to the board for approval.
- Sumit Agarwal** There could be just coastal Maharashtra or you are taking some other projects along with say Naraj Marthapur also?
- S. Ramakrishnan** Your question was coastal Maharashtra?
- Sumit Agarwal** Yeah, it was coastal Maharashtra. Along with coastal Maharashtra are you also taking some Board approval for the Naraj Marthapur also for the....
- S. Ramakrishnan** Naraj Marthapur is progressing but we believe it may not reach the stage by Q4 to take it up, maybe it need another three, four months more.
- Sumit Agarwal** Okay, sir. Thanks, I will come back for any follow-up question.
- Moderator** Thank you. The next question is from the line of Shashi Kiran from Standard Chartered Capital Markets. Please go ahead.
- Shashi Kiran** Hello sir. Thanks for taking my question. Is there any tax implication that you might face on account of Olympus deal that you foresee?
- S. Ramakrishnan** I did not hear you. What we will face arising out of?
- Shashi Kiran** Any tax implication?
- S. Ramakrishnan** No, we are only raising funds in the SPV. So we are not diluting our stand, we are not diluting our holding by selling, we are diluting by somebody else to take additional shares. So there is no implication of tax at all.
- Shashi Kiran** Okay. And the other question is regarding the performance in the standalone entity or rather your power division as a whole. Can you explain what kind of loss that you have actually suffered in this particular quarter?

- S. Ramakrishnan** We have suffered no loss. You are talking about opportunity loss?
- Shashi Kiran** No, no, I am talking of the – you said on account of adverse ATE judgment.
- S. Ramakrishnan** No, no, no, we had a favorable ATE judgment in Q1 of financial year 2010, one year ago, which gave us an additional impetus of 200-odd Crores, which we do not have this year. So when you compare you will find out – In fact, if you see last year's results, Q1 was the best quarter in those four quarters of the last year because of particular 200-odd Crores coming in. To compare to that we look not all great but in absolute sense this 260 or whatever you are talking about is as good as the ones that we achieved in the last quarter, Q4, and far better than Q2 and Q3 of the last year. So we are just putting in perspective, in a sense that this performance looks lower than Q1, but if you really compare it to Q2, Q3, Q4, we are equal to or better than those quarters.
- Shashi Kiran** Right. I have done my calculation, I find that if I adjust for that 232 Crores your Q1 FY10 adjusted PAT should have been 210 Crores and compared to that Q1 FY11 PAT actually should be around 270 Crores, do your figures match somewhere like that?
- S. Ramakrishnan** Somewhere there. It is a better performance than the last year if you adjust for a non-repetitive input that we got at that point of time. Directionally, you are right.
- Shashi Kiran** That answers my question. Thanks a lot, sir.
- Moderator** Thank you. The next question is from the line of Shankar K from Edelweiss. Please go ahead.
- Shankar K** Thank you. Basically, a couple of quarters back when we did this exercise on the JORC reserves on the Indonesian coal mine, where we have to restate our stripping cost and all of that, we were told that there would be some kind of study done on the entire reserves and what could be potentially, there could be a potential restatement of that in terms of.....
- S. Ramakrishnan** We will do that periodically. The study is on at this point of time. As and when the Board approves it and the experts sign off we will announce it to the public.

- Shankar K** Okay. And the MD's statement early remarks he was stating something about Maithon project and where the FSA has been signed for 1.6 million tonne and there is a marginal increase of CapEx to the extent of 380 Crores, are we in line to execute the first unit by September, ex-October which we stated earlier?
- S. Ramakrishnan** We are trying to do so by end of October but commissioning can always produce surprises, so the commitment we are making is we will do so by end of this calendar year. That does not mean it would not happen by October, but we are just keeping that extra two months because machines behave the way, they may need time to stabilize. We are keeping those two months.
- Shankar K** Okay. And lastly, both in the standalone and the overall conso level the outstanding cash and the outstanding debt level?
- S. Padmanabhan** Consolidated cash is 2,487 Crores, standalone cash is 1,084 Crores. Standalone debt to equity is 0.54, conso debt to equity is 1.65.
- Shankar K** Okay. Thanks a lot, sir. That is all from my side.
- Moderator** Thank you. The next question is from the line of Prashant Kothari from ICICI. Please go ahead.
- Prashant Kothari** Sir, just wanted to know the CapEx we have done so far in Maithon and Mundra, how much equity would have infused till date?
- S. Ramakrishnan** I believe it is there, Maithon we have raised a debt of 1953 Cr and put in equity our own Tata Power's equity of 628 Cr. In Maithon we hold only 74%. In Mundra, we have loan of 5,969 Crores and we have put in our equity of 2234.
- Prashant Kothari** 22.34 is already put in?
- S. Ramakrishnan** Yes. And in the last quarter we pumped in 448 Crores in Mundra and 85 Crores in Maithon.
- Prashant Kothari** Okay. Second question was on the investments that we hold and there are some news reporting indicating that Tata Group might be interested in selling more stake in TTSL....
- S. Ramakrishnan** I also read them.

- Prashant Kothari** So would we be interested in offloading you can either Tata Tele or maybe some other company?
- S. Ramakrishnan** We have always made a statement that we need funds for our investments and as and when we get opportunity we will do so at the appropriate time.
- Prashant Kothari** Okay. Thank you
- Moderator** Thank you. The next question is a follow-up from the line of Madan Gopal from Centrum. Please go ahead.
- Madan Gopal** Yes, sir. Sir, I just wanted to know what is the CapEx that has been spent on distribution business in FY10 and what is the plan for FY11?
- S. Ramakrishnan** Mr. Padmanabhan will answer that figure.
- S. Padmanabhan** In distribution FY10 we have spent 992 Crores, transmission was 240 Crores, and in FY11, we are planning to look at around 400 to 500 Crores both transmission and distribution put together.
- Madan Gopal** Okay. Thank you very much.
- S. Ramakrishnan** The distribution CapEx, give us an opportunity to check if it is different from what we told you we will send you a mail. Sorry, it is 92 Crores.
- Madan Gopal** Can you just repeat it for....
- S. Ramakrishnan** We will repeat it for you.
- S. Padmanabhan** Let me repeat. FY10 transmission was 240 Crores, distribution is 92 Crores. And FY11, we are targeting between 400 to 500 Crores both transmission and distribution.
- Moderator** Thank you. The next question is from the line of Bhavin Vithlani from Enam Securities. Please go ahead.
- Bhavin Vithlani** A couple of questions. One is I just missed the part of coal realization for the SPV for current quarter and the cost of production, could you help me with this?

- S. Ramakrishnan** The realization is \$63.7 compared to \$53.8 earlier. And the cost of production this year was 35.1 compared to 31.6 due to increased oil price compared to the quarter one year ago.
- Bhavin Vithlani** Sir, the segmental results of the coal SPV include some part of trading of coal? And if yes, what is the volume and .....
- S. Ramakrishnan** Very unlikely to have any significant influence. There is a small quantity. In the whole year maybe 100,000 tonnes a month is the likely quantity that goes to trading where the margins are very-very low.
- Bhavin Vithlani** What kind of margins are there at the PBIT level per tonne basis on the trading?
- S. Ramakrishnan** In trading our margins are hardly maybe 2%.
- Bhavin Vithlani** Okay. Which means round about \$1 or \$2 per tonne?
- S. Ramakrishnan** Yeah, somewhere there. Because please understand these are back to back transactions where we take no risk, what we charge is more a service charge. So we do not take any price risk either way and hence the margins would not be high, the losses also would not be there.
- Bhavin Vithlani** Fair enough.
- S. Ramakrishnan** We are not a coal trader in that sense of the word.
- Bhavin Vithlani** Fair enough, sir. My second question is on the three expansion projects, Tubed, Mandakini as well as the Coastal, when are we likely to award the equipments and commence construction?
- S. Ramakrishnan** Coastal we told you that we are looking at going for board approvals end of this calendar year hopefully place the order immediately after. As far as Mandakini is concerned we believe we told you it is about four months to six months behind in terms of going for the approval and placing the order.
- Bhavin Vithlani** So three quarters from today all the three projects, equipments would have been ordered and construction would have commenced?
- S. Ramakrishnan** Two definitely, Naraj Marthapur and Dehrand, whereas the Jharkhand project is concerned-Tubed, we do not know, we are still waiting for

certain clearances. Once we get them then we will have a better hang of the timeframe.

**Bhavin Vithlani** Sir on the merchant front, could you also help us across what was the cost of generation from each of the merchant facility the Unit-8 Mumbai and the Haldia?

**S. Ramakrishnan** Unit-8 is around Rs. 3.50 whereas the Haldia is around Rs. 2.90

**Bhavin Vithlani** Thank you so much.

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

**Adam Worthington** I was just having a look at your segment results on Page #17 and I noticed the unallocable expense income has swung significantly I guess versus a full year and also versus the first quarter of last year. Could you just be able to provide us some data of the nature of that item?

**S. Ramakrishnan** You are talking about capital employed?

**Adam Worthington** No, sorry. I am talking about just about the total profit before tax, so the (-117.53) on Page #17 of the presentation.

**S. Ramakrishnan** Unallocable expenditure as I told you this year we have in the consolidated the CGPL ForEx loss, we had to align the foreign exchange borrowings of the CGPL to the current rate. The rupee has weakened since the last quarter. We have a loss of about 150 Crores. So if you see earlier you had a profit, you had an income, now it is an expenditure.

**Adam Worthington** Yes. And is that a non-cash item?

**S. Ramakrishnan** It is a non-cash item.

**Adam Worthington** Okay. Thank you very much.

**S. Ramakrishnan** It is realignment; it is not actual cash loss incurred yet.

**Adam Worthington** I understand. Thank you.

**Moderator** Thank you. The next question is from the line of Harish Biyani from Indiabulls Securities. Please go ahead.

- Harish Biyani** Good afternoon, sir. Thank you for taking my question. Sir my first question is on the consolidated tax rate comes to somewhere about 45%, what is the reason for the same?
- S. Ramakrishnan** The last quarter as you know in the coal companies our view on taxation we are changing from quarter-to-quarter. Whereas now we have settled and we have been providing for 45% one. Two, in the Indian situation, the last quarter since the budgets have not been signed by the President, the previous MAT rates were applicable, now the correct MAT rate is applicable. Due to the two reasons you find the tax percentage is very different from last year.
- Harish Biyani** So the current MAT of about 20% is what we are taking tax rate now versus earlier about 17%?
- S. Ramakrishnan** You are talking about consolidated?
- Harish Biyani** Yes, exactly.
- S. Ramakrishnan** The consolidated is a bit different because it is a mixture, because our coal companies are running at 45%, Tata Power is running at 20%, so my SPVs are running at no percent, but it is a bit difficult for me to sort of tell you on a gross basis. The only thing we can say is the coal we had provided from now on at 45% last year same quarter probably we had only provided 25% or so whereas Tata Power last year provided hardly 8% or something like that in terms of the current tax. So it varies from place to place. There has been an increase. So you will see that increase.
- Harish Biyani** I was just wondering is it bears any one-time because the consolidated tax rate is at 45%....
- S. Ramakrishnan** There is no one-time item. These are all current items.
- Harish Biyani** So going ahead 45% tax rate is what we are looking at, is that....
- S. Ramakrishnan** Except to an extent that deferred tax. Deferred tax is always provided based on the difference between tax depreciation reporting depreciation. It has nothing to do with the PBT so to that extent when you people combine the percentage you would be misled. Better way is to ask Sandeep to give you current tax and deferred tax separately and then work out. While the current tax percentage is likely to remain probably

constant deferred tax is a function of the GAAP. It has nothing to do with the PBT.

**Harish Biyani**

Fair enough. I will take it from Mr. Tilak. My second question is on the Olympus deal. We understand that some days before the dividends are paid out, Tata Power will have to inform Olympus about this particular dividend payout and they will have the option of converting their shares into equity. So just wanted to know the number of days before we will have to inform Olympus and also if there is no listing of Olympus then Olympus has the option of exiting at a certain multiple. Just wanted to understand the reason for the same.

**S. Ramakrishnan**

Both are true. The first one is that if we are declaring a dividend, it happens to be one-time substantial; they have the option to participate in by converting into shares. I do not know the exact number of days, hopefully, whoever is administering the contract will know it, I do not have it now. The second is in terms of exit if we are not listed we have to buy back the shares. The way we have said is whatever is the certain multiple of the previous 12 months' earnings of our coal SPV is decided as a price. So that if the coal outlook is brighter, the profitability, the value will be higher. If the coal performance is poorer, what we pay will be poorer. So it has nothing to do with what they invested or sometimes you link it to some investment with some minimum return and maximum return whereas in our case we have made it very clearly linked to the outlook on the commodity rather than the investment.

**Harish Biyani**

Okay. Sir my third question is on the hydro project in Nepal. Just heard in the opening remarks that work has started on that particular project, so wanted to know the project cost, what is the PPA likely, how have you structured in this, any merchant that we are doing over there?

**S. Ramakrishnan**

The project that Mr. Menon talked about is in Bhutan, Dagachhu project where the construction has commenced. It is a 100-odd MW project where the entire power will be purchased by Tata Power Trading and the power is meant for the merchant market in India.

**Harish Biyani**

What is the project cost?

**B. Agrawala**

The present project cost is about \$200 million. That is what we have at the moment.

- Harish Biyani** Fair enough, sir. I will come back for any further questions. Thank you so much.
- Moderator** Thank you. The next question is a follow-up from the line of Neha Kothari from Standard Chartered. Please go ahead.
- Shashi Kiran** Sir, this is Shashi Kiran from Standard Chartered. Regarding the Power Links, have you given out revenues or earnings from that particular division?
- S. Ramakrishnan** We have faxed to you or mailed to you. TPL results and Power Links results have been mailed to you.
- Shashi Kiran** Okay. Thank you. And my other question is on how the expansion of your Mumbai distribution business going? And how much power off-take you expect for this particular business in the near future?
- S. Padmanabhan** As of now in terms of total number of customers, we have 76,000 customers, of which 46,000 are those who have changed from Reliance Infra to Tata Power and 30,000 odd are on our own network. For this total peak demand of power is expected to be about 761 MW. Currently we have 488 MW for the existing PPA and another 160 MW which is now made available, so the rest we are purchasing from the open market.
- Shashi Kiran** Okay. So in terms of units you might say how much of it is met through your internal generation and how much of it is purchase from outside?
- S. Padmanabhan** I was just telling you know, the 488 plus 160 is met from internal.
- S. Ramakrishnan** You want MUs?
- Shashi Kiran** Yeah I am referring to the MUs.
- S. Padmanabhan** Okay, so that I will send it to you how much is internal and how much we are buying outside.
- S. Ramakrishnan** We can tell you the last quarter if you need. We have it probably in our results in Q1 how many MUs we bought from outside for distribution, 345 MUs were purchased, out of which 328 is from the merchant power and our total sale in distribution is about over 1000 MUs.
- Shashi Kiran** So more than 1000 MUs?

- S. Ramakrishnan** Yeah.
- Shashi Kiran** Okay, sir.
- S. Ramakrishnan** Of course you have to take losses on all those because the sale is on net basis whereas the purchase is on gross basis.
- Shashi Kiran** Right.
- S. Ramakrishnan** So external purchase wise probably we are buying somewhere around 25% to 30% of our power, 25% of our power at this point of time.
- Shashi Kiran** Okay, sir. Sir in the event of your successful outcome of dispute with Reliance Infra in the event I mean I would say you would not be required to be purchasing this 345 million unit?
- S. Ramakrishnan** That is right.
- S. Padmanabhan** So once the 200 megawatt switches over back to us then we do not have to buy this additional power from the external purchase.
- Shashi Kiran** Okay, and even for the future quarters this 761 MW is obviously would be a peak demand in this summer months of the Q1, in future quarter your peak load you would not expect to be in this range?
- S. Padmanabhan** No, that is what I was trying to tell you, as of now if you take today we need about 750 MW.
- Shashi Kiran** Okay. Thanks a lot sir.
- Moderator** Thank you, the next question is from the line of Tien Doe from GIC. Please go ahead.
- Tien Doe** Hi, good evening, thanks very much for the call. I just got one question on Mundra and carbon credits, one of the brokers had a story saying that Mundra had been turned down for carbon credits I am just wondering whether that was true if you can comment on that?
- S. Ramakrishnan** It is true, yeah, we are making a representation back with the concerned people, it is true.
- Tien Doe** And so you will reapply or appeal to get to that position?

- S. Ramakrishnan** Yeah, yeah, we are reviewing it and we will either appeal or reapply whatever options that we have, we are looking at it.
- Tien Doe** And if the worst came to worst you did not get carbon credits is that a significant setback or is that a big factor in your....
- S. Ramakrishnan** It is definitely one of the factors, which pushes the return down.
- Tien Doe** Okay, thank you.
- Moderator** Thank you. The next question is from the line of Ashish Shah from IDFC Securities please go ahead
- Ashish Shah** Yeah, sir just one question you said that you accounted for the exchange variation?
- S. Ramakrishnan** Yeah.
- Ashish Shah** With regards to our Mundra project and the P&L this time but I was wondering since the project is not commissioned then why would you be taking it to the P&L?
- S. Ramakrishnan** See, the option of way of accounting treatment was taken by Tata Power two years ago, at that time frankly we took that decision purely on a standalone basis, whereas CGPL, in its board we have taken a view to capitalize but since we cannot change the accounting principle of TPC into it as these are being consolidated that is why we have noted that even though the subsidiary is following the other policy we are consolidating under the parent policy due to which we have this, and you may recall in Q4 we had a gain of 250 crores.
- Ashish Shah** Right.
- S. Ramakrishnan** Yeah.
- Ashish Shah** Okay, sir, thank you.
- Moderator** Thank you. The next question is a follow up from the line of Venkatesh B from Citigroup please go ahead.
- Venkatesh B** Yes sir, regarding your Mumbai license area CapEx you mentioned that the T&D CapEx which you are expecting this year is roughly

around 400 Crores to 500 crores. What I remember in your analyst meet which you have held up after the full year result you had mentioned that this number would be around 887 crores which would be around 1109 crores and then 709 crores in FY13 now is there any reason why you have scaled back the size of the CapEx in Mumbai?

**S. Padmanabhan** No, in the case of, when we talked about the annual results for FY11 that included generation transmission and distribution. Today, the question was only on transmission and distribution.

**Venkatesh B** Sir actually you had mentioned in that same analyst meet that generation CapEx you had given a separate number of 361 crores?

**S. Padmanabhan** That is right.

**Venkatesh B** So that 887 crores includes 361 plus around say 500 crores, that is what....?

**S. Padmanabhan** That is right, yes.

**Venkatesh B** Now the second question is your stake in Dagachhu is just 26% right sir?

**S. Ramakrishnan** Yes, that is right.

**Venkatesh B** And what will be your stake in Tamakoshi?

**S. Ramakrishnan** 50% minus one share.

**Venkatesh B** Last question from my side, now you mentioned that Unit-8 in Trombay your cost of generation is roughly around Rs.3.70 or 3.80 now is it not a little risky to be selling such high cost power in the merchant market, does it not worry you over the next three, four years if there is a correction in merchant prices, this could definitely...

**S. Ramakrishnan** See, 3.70 does not worry us, though, our PLF maybe a bit low because there are months in winter in the night when we do not sell. The way to look at it is, for dispatch purposes we look at merchant rates being higher than variable cost, because in summer you make a lot more money as contribution towards your fixed costs, whereas in winter we do not mind smaller contribution towards fixed costs as long as we do not go out of pocket so what we really do is we compare the variable

cost when we decide whether to dispatch or not but the fixed cost recovery we believe the summer months are good months and the fixed costs recovery takes place you know, higher than the period for which the power is being sold. So 3.70 I do not think is an issue when the merchant power average is probably running somewhere around higher than Rs. 5 today.

**S. Padmanabhan** The first five months realization is about Rs. 5.45.

**Venkatesh B** Sir but usually you go for a merchant sale if your variable cost of generation is very low so that you do not have any risk if there is a correction, now if you have such high prices is it not better to go and tie up a long term PPA with this kind of a plant 100 megawatts?

**S. Ramakrishnan** See look at it this way, if you look at our total portfolio of 3000 megawatts we are really exposing 200 megawatts to merchant power which is 7% right, so if you are talking about taking an opportunity for the upside the downside is not something that we cannot take so you have to look at it not in isolation but in the total portfolio. In my portfolio I have almost close to 2700 megawatts either on regulated basis or equal to regulated basis what I sell to Tata Steel is also on a regulated basis. So from that point of view the policy of our company has always been to expose the company to about 10 to 15% of our capacity on merchant and the rest we do not. However, should the market weaken or deteriorate on a long term basis we will move some of these into either case 1 supply or slightly longer term contract at a lower rate. I do not think we have reached that market situation as yet.

**Venkatesh B** But again a follow up on the same topic now by another three, four years time you will have roughly 8000 megawatts up and running?

**S. Ramakrishnan** Yeah.

**Venkatesh B** 8000 megawatts your merchant exposure is just 200 megawatts if you look at most of your competitors who are there out there, say Adani or Lanco or anyone you name there is hardly anybody who has less than say 15% to 20% of whatever is their plan in the merchant market?

**S. Ramakrishnan** I agree with you.

- Venkatesh B** Now to some perspective are you not being a little too conservative on the merchant side and missing out like a three to four year kind of a window of opportunity when amazing amount of money, super normal profits can be made so is it not that a cause of botheration or is it like there is something else behind the whole?
- S. Ramakrishnan** No, no, the question is, what fuel do you have. If you have access to domestic coal mines you can subject it to merchant which we will when we get our Jharkhand and Orissa projects going on. Setting up large capacities and imports goes back to the question you asked us at the beginning of this query, that you know 3.70 why do not you sign long term contract, so it is in that midst that one is talking about, some people are extremely effective in getting domestic coal mines allotted to them some are not.
- Venkatesh B** Is it that Tata Power does not get domestic coal linkages, is everybody else getting domestic coal linkages is it like, you know a case of Tata Power is not lobbying enough with the government or...?
- S. Ramakrishnan** You need to answer that, you know the industry as well as I do.
- Venkatesh B** Okay sir, thank you very much and all the best.
- Moderator** Thank you. The next question is from the line of Prashant Periwal from Altima Partners. Please go ahead
- Prashant Periwal** Hi, I had a question on the coal mines, if you look at the numbers that you have given average realization for last year and this year in one quarter which is 53.8 and 63.7 respectively?
- S. Ramakrishnan** Yeah.
- Prashant Periwal** And if I look at the cost you gave a number of \$31 per tonne and \$35 per tonne respectively so the contribution we look on a per tonne basis basically gives me a number of 22.8 and 28.7 respectively?
- S. Ramakrishnan** Yeah.
- Prashant Periwal** If I look at the EBIT that doesn't reflect the same EBIT from the coal business so could you explain what else is going here?
- S. Ramakrishnan** Whose EBIT you are talking about?

- Prashant Periwal** Coal business EBIT?
- S. Ramakrishnan** Yeah, see these are the operating figures we also make a provision for technical and management fee which have a certain tax effect, so in the EBIT we remove the technical and management fees, while dividend is below EBIT the technical and management fee we charge is above it.
- Prashant Periwal** Sure, so that must be happening in the same quarter last year?
- S. Ramakrishnan** It happened in the same quarter last year, the amounts are marginally different, last quarter it came to about \$3.5 per tonne.
- Prashant Periwal** Right, so now then the point is that if I look at the realization per tonne which is above the EBIT I do not have those numbers net of that, your contribution per tonne is higher by 26% and your EBIT is higher by 13% it is just 39.....
- S. Ramakrishnan** Okay, we will ask Sandeep to work this out and convey it to you.
- Prashant Periwal** Right.
- S. Ramakrishnan** Because there are some marketing sales expenses also, management fees, freight and other administrative expenses so I will ask him to do a tally and mail it to you.
- Prashant Periwal** That is fine, thank you. And the second question I had was on the tax rate I think this was asked in the previous question as well, so your tax rate comes at 45% on the consolidated basis and you mentioned there are some deferred tax issues related to that and you also said that we should expect the same tax rate going forward but 45% sounds on a ...
- S. Ramakrishnan** For the coal companies what I said in terms of on the consolidated basis unless you track the deferred tax separately it will be a big difficult for you to model in a very consistent basis.
- Prashant Periwal** Sure.
- S. Ramakrishnan** So we need to give you the split up between deferred tax and current tax. It is fair to assume current tax will run the same way assuming the profit is being mixed between different businesses is same. If the mix changes again, the percentage will change. The coal is running at 45% whereas my power business is not running at 45%. So I will ask my

people if you want for a model, you have to model it separately and give you what the tax is on the power business and what is the tax is on the coal business.

**Prashant Periwal** Right, but the point is that the net tax has to be lower than 45% because I mean power business maybe running at any tax but you know, the peak tax setting is what 33.99 and coal is at 45 so the gap that has to be lower than 45?

**S. Ramakrishnan** Yeah.

**Prashant Periwal** Including the deferred tax and the actual tax is it not.

**S. Ramakrishnan** Okay, so what is your question?

**Prashant Periwal** The question is I mean you guided for 45% for the rest of the year or probably the similar tax rate so is it the.....

**S. Ramakrishnan** No, that is why I am telling you we will give you what you think should be the tax rate for coal business going forward and power business going forward and then you apply depending on the mix. That is what I am trying to mail to you.

**Prashant Periwal** All right, thank you.

**Moderator** Thank you. Ladies and gentleman due to the 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.

**S. Ramakrishnan** Yeah, thank you very much for participating in the analyst call. We will continue to have the same for every quarter going forward. Sandeep will mail some of the queries which we said we will mail to you something concerning tax and something concerning the coal margins. If you forget anything you can always send him a reminder mail. Thank you very much.

**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 the lines.