



“TATA Power Limited Q1 FY23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the TATA Power Q1 FY '23 Earnings Conference Call. As a reminder, all participants lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Praveer Sinha, CEO and MD of TATA Power. Thank you, and over to you, sir.

Praveer Sinha: Thanks, Ryan. Good evening to everyone, and thanks for joining the call, and I hope all of you are doing fine and taking care of yourself. I'm joined today in the call by my colleague Sanjeev Churiwala, CFO; Mr. Jinendra Patil – Financial Controller; Soundararajan Kasturi from the Investor Relations and a few other members from our finance team.

We are meeting you after a quarter that has seen significant development in many ways for the energy industry and as also for TATA Power. We have seen in last few months, unprecedented rise in coal prices accompanied with demand, which has led to short-term power prices going up. At the same time, initiatives like green open access and increased trajectory of RPO by 2030 to 47% will further help in the implementation of renewable projects in the country.

TATA Power has also completed another remarkable quarter with significant progress on various of its strategic initiatives. Besides a very strong operational performance in all the businesses, we have progressed significantly on the renewable transaction in the last 2 months. The CCI approval for this transaction has been received just today evening, and we expect to receive the first tranche of ₹ 2,000 crore in the next few weeks.

On the Mundra front, we have been operating the assets under Section 11, which was passed by Ministry of Power, under which a pass-through mechanism has been provided. At the same time, we have been working with the procurers, especially the Gujarat procurers to finalize the long-term arrangement with them. The merger of CGPL with TATA Power has been completed last quarter with effect from 1st April 2020, which provides us significant operational synergies to our group.

This quarter, we saw a steady operational performance from all our assets in generation, transmission as well as renewable business and very high profit from our coal mines due to higher coal prices. We achieved nearly 90% growth in reported PAT, which stands at ₹ 884 crore as compared to ₹ 466 crore in the previous year quarter. This is now the 11th consecutive quarter of delivery year-on-year profit growth and is expected to continue in the future too.

We saw a robust year-on-year growth of 48% in revenue, which stood at ₹ 14,776 crore this quarter. Similarly, we saw a reported EBITDA for this quarter at a steady ₹ 2,107 crore compared to ₹ 2,365 crore, which had a one-off impact of ₹ 302 crore in the previous year due to the tariff order that we had received in Mundra.

Our renewables business delivered strong execution in the last quarter as TATA Power Solar commissioned 600MW AC solar capacity including India's largest floating solar power project in Kerala backwaters. With the wins of 1.7GW in this quarter, TPSSL has now 1.3GW of owned projects and 2.3GW of external orders aggregating 3.6GW of total large scale EPC contracts worth nearly ₹15,000 crore, which will be completed in next 12 to 18 months. Due to higher commodity prices, including solar cells and modules and foreign exchange movements, we saw a hit on profitability of the EPC business, but expect that the margins will improve in coming quarters with newer orders and contract manufacturing, which has been tied up to be done in India.

We have also signed an MoU with Tamil Nadu government to invest approximately ₹3,000 crore for setting up a Greenfield 4GW solar cell and 4GW solar module manufacturing plant in Tirunelveli District of Tamil Nadu and the work is expected to start in the next 1 months' time. The manufacturing plant will help us in supporting the nation's aspiration to create a comprehensive ecosystem for solar manufacturing and fulfilling the needs of the solar project as also helping us to improve our margins and having a better control on the cost of solar cells and modules. The first phase of the plant of solar module is expected to be commissioned by June next year. And the second phase of cells will get commissioned by November next year.

TATA Power's new age business has also delivered promising results in this quarter as we achieved 4x and 2x growth, respectively, in rooftop solar and solar pump business in terms of revenue over Q1 of last year. Margins in rooftop solar has tightened because of the commodity prices and the currency fluctuation. But with the new strategic initiatives, we foresee improvements in the coming quarter. Similarly, TATA Power EZ Charge is also getting a lot of traction in the market space, where we continue to enter new partnerships to create green mobility infrastructure in India. We now have more than 240 E-bus charging points and around 2,400 public EV charging points across 437 cities, which is the largest EV network in the country. We have also signed MoUs with OEMs to enter into strategic partnerships to facilitate a robust EV charging network and accelerate the adoption of EVs across the country. We have also entered an MoU with NAREDCO to set up around 5,000 charging stations across new construction project sites in Maharashtra.

This quarter we operated 3 units of Mundra under Section 11 dispensation since 6th May which allows us a full pass-through of the coal cost. This notification is valid till October 22 with an opportunity for extension and with no under-recovery in Mundra. In parallel, our discussions with Gujarat on the supplementary PPAs to implement the compensatory tariff is also underway and that will pave the way for a permanent resolution of the Mundra issue. With the recent phenomenon of power shortages and restart of thermal capacity, we are confident that this arrangement will be converted into a long-term arrangement, which will provide stable power to the beneficiary states.

The continuous effort to bring focused operations leveraging on our experiences from Mumbai and Delhi and investment across the 4 Odisha Discoms is leading to continuous improvement in their operational and financial performance. The technical losses have reduced by nearly 1% to 3% across these Discoms, while AT&C losses have reduced by 4% to 9% compared to Q1 of last year, which is a significant achievement in just last 1 year.

Moving to the balance sheet, the net debt level inched up a little bit in line with our earlier guidance on growth Capex. Net debt at the end of Q1 is around ₹ 42,000 crore, with Capex of more than ₹ 2,000 crores incurred during this quarter mainly in our renewables business and Odisha Discoms. However, the healthy growth in the operational profit from the businesses have helped us to improve our debt to underlying EBITDA further from 3.9 in the last quarter Q4 of FY '22, to 3.6 in this quarter. Due to increase in debt, our net debt to equity stands a little higher at 1.55 times compared to 1.53 times in the previous quarter. We believe with the type of aspiration that we have to grow businesses, we'll be able to maintain a very healthy debt-to-equity ratio.

The beginning of FY '23 has also been very promising for our transmission business with our resurgent platform securing the NCLT approval for takeover of South-East UP Power Transmission Company Limited, which is developing an intrastate transmission line in UP of approximately 1,500 kilometers along with 5 numbers of 400 kV substation. This is after we recently took over another transmission assets, which is the NRSS XXXVI Transmission, again through the Resurgent platform. Both these acquisitions, together has a combined EV of around ₹ 6,500 crore and annual revenue of around ₹ 900 crore once they are fully implemented. We are actively participating in competitive building for transmission projects, which is an important part of our growth in the future.

Lastly, we thank all our analysts and investors for their support and the institutional investors all Asia, excluding Japan executive team 2022 poll. With your support, we have been able to once again secure top rankings in several categories, including the best IR program and ESG disclosures outside Mainland China.

TATA Power continues to steadily move towards its long-term aspirations built on businesses of the future while maintaining a healthy balance sheet. Quarter-on-quarter improvements can be seen in all our operational and financial metrics. And the trend will be visible in the future too. We look forward to your continued support in this future.

With this, I hand over the call back to Ryan for the question-and-answer session. Thank you.

Moderator:

We will now begin the question-and-answer session. Our first question is from the line of Rahul Modi with ICICI Securities. Please go ahead.

Rahul Modi: Sir, just a couple of questions that I had on the 2 EPC segments, we've seen a big loss being booked in TATA Projects. Last year, we did a full year loss of around ₹200 plus crore and this time we've actually reported that on a quarterly basis. So, how much do you see the pain coming in or most is done on the projects part? And secondly, a similar question on the solar EPC, do you see in the older order books any provisions that needs to be taken further which can impact margins though you've mentioned that it should improve going forward. Any thoughts on that, please.

Praveer Sinha: So, Rahul, thanks for the question. As far as TATA Projects is concerned, last quarter, we had booked a certain amount of loss and in the whole process we were identifying projects as to what is the cost to completion and if there is any more provisioning that has to be done we did in last quarter and in this quarter so that going forward we do not have to carry any burden of future write-offs that we need to do. We expect that this is the end of the write-offs and provisioning that we need to do. And going forward, they will be making profits. Similarly, in our renewable EPC projects we don't have a very large loss, its some of the projects which were in the last stages of implementation where we had procured modules when the prices were on the higher side and we were expecting that still we will have a small hit. The only uncertain thing that happened was that we also had a Forex hit in the quarter because of the fluctuation in the dollar rate. We expect that now that as we are fully hedged and we will not have an open position, we will be in a much better position to take care of it in the future.

Rahul Modi: So, sir, now we are hedging all our exposures back-to-back, is it, 100%?

Praveer Sinha: Yes. We are now doing that. We had earlier left some open space because the fluctuation was not so much. But now we have done 100%.

Rahul Modi: So, sir, in terms of the contract manufacturing, which you mentioned that we are doing domestically for the modules, how much capacity have we tied up? And in terms of the price variations in that, how are we better placed v/s the imports that we do for the pricing that we are getting?

Praveer Sinha: So, what happens is we've tied up with a couple of manufacturers over here and as you know that the customs duty for cell is 25% while for modules is 40%, so we have 15% arbitrage as far as if we get it manufactured in India in terms of the customs duties. We have a very competitive terms under which we have tied up. And we do feel that we will be able to take care of our future requirements especially where we have domestic components in terms of manufacturing to meet our future supplies.

Rahul Modi: So, sir, this contracting would be only for the next probably 12 to 15 months till your own capacity comes up?

Praveer Sinha: No, it will be a little longer than that because the capacity that we will have will take some time to stabilize. And secondly, it's not that all the capacity that we have 4GW, we'll use 100%. So, there would still be some spillover which we will take from the contract manufacturers.

Rahul Modi: So, you expect as a full year basis and the year to come, our solar EPC margins will actually make a comeback and will be a little more steady versus what we've seen in the last 12 to 18 months?

Praveer Sinha: Yes, it will definitely be much better. And once we have our own manufacturing over here, we will definitely be able to improve drastically. Also, a lot of these changes have happened very quickly in last 1 year, the notification for a change of customs duty came on 3rd March 2021 and there were certain projects which were in the pipeline which we had already bid for. So, going forward, we have now switched all projects where we have considered the impact of customs duty. And hopefully, we'll have much better margins as we move forward.

Rahul Modi: Sir, our receivables have gone up almost by 40% to 50%. Sir, any cause of worry what's led to this, if you can just elaborate?

Praveer Sinha: So, our receivables have gone up because of 3 reasons. First is that we have been over a period of time not received some old payments which we are supposed to get from Andhra and Tamil Nadu and all that. Now that the court order has come and they have been asked to make that payment, we should be able to get that. Secondly, during the month of March, we had imported large quantum of solar modules to avoid buying it from April when the BCD had come in, that is getting liquidated and that benefit will come in this quarter. Lastly, we have also been buying a large quantity of coal from Mundra. And because of the higher prices of coal, there has been little stress on our cash flow. And again, this will get addressed in this quarter.

Moderator: Our next question comes from the line of Swarnim Maheshwari with Edelweiss. Please go ahead.

Swarnim Maheshwari: My first question is again on TATA Projects, and you did mention that there were losses, but just wanted to better understand that commodity inflation, of course, is a possible reason. But we have not really seen any other large EPC companies reporting losses at least. So, what's happening? Is there some sort of cleaning before the possible IPO?

Praveer Sinha: This is routine business. And in that, the Board and the Audit Committee always examines that what sort of a provisioning we need to do, especially when we know the cost of completion will be on a higher side. So, that's a standard way of accounting that has been done in this quarter. Secondly, the increase in commodity prices have been there for all companies, all of the companies which have been in construction business, infrastructure companies have seen this sort of trend in last one year. Fortunately, now the commodity prices are coming down. And we will take the benefit of this going forward. So, our ability to now forecast and adjust this is much better and hopefully, we will not have the impact in the future quarters.

- Swarnim Maheshwari:** Secondly, on this Mundra, if you can just elaborate what exactly is the arrangement that we are continuing under the Section 11? And you mentioned that the extension is applicable to October 22. Is that right?
- Praveer Sinha:** So, under Section 11, the requirement is that the generators will generate and offer the power to the procurers and they will be fully compensated for the cost of generation. So, we expect that whatever is the actual cost that will be incurred in producing power will be a pass-through. And this arrangement of course is up to 31st October, but it may get extended. We have been told to be ready in case it gets extended to supply power because there has been a huge increase in demand in the last few months. And if the same trend continues, then we might have to continue the operation under Section 11.
- Swarnim Maheshwari:** So, that would imply no operating losses per se for whatever you are operating?
- Praveer Sinha:** Yes. And going forward if it continues under Section 11, there will not be a loss.
- Swarnim Maheshwari:** But sir, at the moment, we are operating about 3 units, whereas the other 2 units are still not getting operated. So, would there be P&L consequences over there for a lower capacity?
- Praveer Sinha:** So, we are offering on a daily basis, full declared capacity. That means all the 5 units 3,800MW is being offered and then the scheduling is being done by the Discoms. So, we are ready to operate all 5 and we will get paid the fixed cost for operating all 5.
- Moderator:** Our next question comes from the line of Sumit Kishore with Axis Capital. Please go ahead.
- Sumit Kishore:** The first one on CGPL. Because there's no slide this time given it has been amalgamated in the stand-alone entity, but I would like to understand here what was the under recovery for CGPL in the June quarter? And given Section 11 was implemented early May, since then, what has been the under recovery? And has there been a capacity change in the recovery because a couple of periods we were not available?
- Praveer Sinha:** So, Sumit, the Section 11 came from 5th of May so, before that, there has been an under recovery and the details we will share with you later. So, the under recovery has been for the period for 1st April to 5th May. And thereafter, there should not be any under recovery. We are of course before the CERC and the order is expected in the next few weeks. So, the details can be shared with you by Rahul and team.
- Sumit Kishore:** I understand. But for the full quarter, you had been sharing a figure on fuel cost under recovery? What has it been for the full quarter? And after Section 11 implementation, has the negotiated tariffs been cost reflective? So, can you confirm that there has been zero under recovery post 5th of May?

- Praveer Sinha:** So, 5th of May onwards, the tariff has to be determined by the regulator. An interim tariff was given by Ministry of Power based on which we have done the billing for the last 2 months. However, the petition is now before CERC and we still have to hear from them as to what will be the final tariffs that they will approve. So, once the order comes in the next few weeks, we'll be able to share that. But our understanding is that these are cost reflective tariffs that they will fix because under Section 11 it's a compulsory generation that has been done. And hopefully, there should not be any under recovery from 6th May.
- Sumit Kishore:** So, was the interim tariff cost reflective, and if not have you accounted for the difference as a receivable in this quarter post 5th of May?
- Praveer Sinha:** So, the interim tariff that has been given only for 4 weeks. So, for the first 2 weeks, it was cost reflective; for the next 2 weeks, it was not cost reflective. The full details have been furnished to CERC and they are examining things. So, concept wise, it has to be cost reflective. That's what is important.
- Sumit Kishore:** And after the supplementary PPA arrangement gets implemented hopefully sometime in the future, what would it entail?
- Praveer Sinha:** That is still under discussion so, it's little premature to say. A lot of arrangements are being discussed under that. And let's wait for some more time before we are able to clearly spell out what would be the arrangement.
- Sumit Kishore:** You've also not published your customary slide on Indonesian coal this time. So, could you please speak about the average HBA coal sold, the net revenue after royalty and net profit per ton? This was a particularly sweet quarter for the stake in Indonesian coal mines. So, we'd like to understand the balance here.
- Praveer Sinha:** Sure enough. Rahul, will share the details with you. As you know, there have been changes in Indonesia also in terms of the royalties and the corporate tax and all. While the license was renewed from 1st January, many of these have been notified in later part of May and June. Hence, the details are still under calculation and the Indonesian government is still working out the arrangement in terms of what sort of taxes, royalty and other shaving of profit has to be done in that. So, whatever details we have, we will share with you, but it is still a little interim and finality has not come to it.
- Sumit Kishore:** Quick follow-up on TATA Projects. The reading earlier that there was a rights issue that was planned by TATA Projects, which compulsorily all stakeholders, including TATA Power would have to subscribe to? What is the status of that rights issue?
- Praveer Sinha:** There is no plan immediately like that. So, once we take a decision on that, we will share that information. At this stage, there is no decision about anything like that.

Sumit Kishore: My final question on TATA Power Solar EPC business, where you had mentioned in the last quarterly conference call that the Q4 margins factored in provisioning for elevated module and commodity prices for the existing order book. I understand that there has been an FX impact as well but could you speak about the margin profile of the order backlog now that all these things are behind us? And what does this business mean for you on an ROE, ROCE perspective. Given your overall goals under TATA Power 2.0, is this eventually going to be supportive of profitability? Or is it just going to be a drag?

Praveer Sinha: Absolutely. It means that we have to support and it has to become profitable. So, all of these businesses that we are doing have to stand on its own and on the merit of being profitable. So, the details can be shared again by Rahul, I think he's already shared some of the details, but he can provide you any specific information you require on TATA Power Solar. All these projects have an arrangement on a back-to-back basis in terms of procurement of the cells and modules. Similarly, we have now done 100% hedging of the currency, so going forward, we don't expect there too much of swing in terms of the profitability of the TATA Power Solar.

Moderator: Our next question comes from the line of Mohit Kumar with DAM Capital. Please go ahead.

Mohit Kumar: My first question is on the Mundra. As I understand, the government of Gujarat has passed the resolution under cabinet, which allows the complete pass-through, and one of the competitors has got the PPA approved from CERC. Are we working on a similar kind of resolution? Is my understanding correct? And how long do you think the long-term resolution will take?

Praveer Sinha: So, the arrangement with us is a little different than with the other suppliers of power in Gujarat as ours is being arranged on a different basis. However, the fundamental thing that is being agreed is that the coal cost has to be a pass-through because the way the coal costs have gone up in the last 1 year so the pass-through arrangement has to be agreed with. Now there are certain other aspects which are there, which needs to be negotiated and finalized between both the parties, and we are still under discussions with them. So, it's a little premature. But conceptually, the coal cost, whatever is there, it will not get restricted to a certain HBA level, but it will be a full pass-through.

Mohit Kumar: So, as far as the interim tariff is concerned, are we to expect the fixed charges, which you had bid to get recovered under Section 11?

Praveer Sinha: Yes. So, the concept of Section 11 is that all costs have to be given. So, whether it is fixed cost or variable cost, there cannot be any deductions. In fact, there has to be a certain profit margin also, which has to be procured. So, that is the agreed legal position based on the earlier order. And we are expecting that when CERC decides on it, it will consider this aspect while determining the tariff.

- Mohit Kumar:** Lastly, sir, has there been any write-off in the coal mine in this quarter for the Q4 FY '22 given the changes in Indonesian regulation?
- Praveer Sinha:** No, there has been no write-off in the coal mines.
- Mohit Kumar:** Has the last quarter profit for the coal mine been restated or something?
- Praveer Sinha:** No.
- Moderator:** Our next question is from the line of Puneet Gulati with HSBC. Please go ahead.
- Puneet Gulati:** My first question is just again, a clarification on the Mundra side. So, is the understanding correct that under the Section 11, you would also be making sort of profits out of Mundra and not just be EBITDA neutral?
- Praveer Sinha:** So, concept wise, that is what is the principle on which the Section 11 tariff is determined. Now the matter is before CERC, so let us wait to hear from them as to what we will apply under the present context.
- Puneet Gulati:** And is CERC also considering the profits from your Indonesian mine while calculating this? Or is that separate from the discussions?
- Praveer Sinha:** That is separate. That has nothing to do with the operations in Indonesia.
- Puneet Gulati:** My second question is on your Odisha Discoms. So, while YOY, we've seen AT&C losses go down, but on QoQ, they are up. Is there some seasonality that one needs to read into this?
- Praveer Sinha:** So, the losses, if you compare it to last year Q1 has gone down. And that is the trend that we have seen over there. And the initiatives that we have taken, we expect that this trend will continue in the future.
- Puneet Gulati:** No, but Q1 FY23 over Q4 FY22 is up, for example, for CESU it's 35.7% versus 29% in the fourth quarter.
- Praveer Sinha:** That happens because of the seasonality. So, what happens in the summer months because the supply is more, the demand is more. So, by the time you get the benefit of it. So, that's why in distribution business, we always do a 12-month cycle rather than doing a 3-month cycle.
- Puneet Gulati:** And on your EPC contract on the solar side, what are you now doing to protect your margins? Are the nature of contract different from what they were before?

- Praveer Sinha:** So, basically, what we need to do is we need to consider what is the forecasted prices of cell and modules and consider now that the customs duty is there, we need to add that. In case, we are getting it manufactured locally through the contract manufacturing, then we'll need to consider the customs duty for cell and not for the module. So, we need to do a much better projection based on whatever data is available of the future cost of cells module and then take contracts on those lines. Also now we have taken care of the currency fluctuations and the commodity prices have come down. So, you need to protect yourself by tying up on a long-term basis.
- Puneet Gulati:** But wasn't customs duty a part of the change in law, isn't it? Should we expect some benefit coming later?
- Praveer Sinha:** In some cases, it was there. So, where projects were bid before the customs duty was announced, they were there. But in some cases there were no benefits, where it was done subsequently because of the delay in supply from China and the transportation delays and all that where one will not get the customs duty waiver or customs duty pass-through. So, also, it's a basket of projects under which we need to operate.
- Moderator:** Our next question is from the line of Atul Tiwari with Citi. Please go ahead.
- Atul Tiwari:** Again on this Mundra Section 11 arrangement. So, which Discoms are the customers for these 3 units under Section 11?
- Praveer Sinha:** So, right now, we have been supplying it to Gujarat and Maharashtra. But under Section 11 mandatorily you need to supply and it is mandatory responsibility of all the buyers to take that power or if they are not taking they will still have to pay the fixed cost for that. So, that's the arrangement under Section 11.
- Atul Tiwari:** And these 2 months bill that you have raised, I mean, have you received any payment from the Discoms? Or they are all still pending and leading to some unfavorable buildup?
- Praveer Sinha:** Yes. So, they have been paying, both Gujarat and Maharashtra have been paying. The other states have not paid, but they are waiting for the order from CERC and thereafter we will take a call.
- Atul Tiwari:** And sir, what will be the current fuel cost of the power that is being generated?
- Praveer Sinha:** I don't have the numbers, but we can share that number with you. It depends on how the procurement of coal has been done, not that everything comes on HBA tariffs some of them are spot market or distressed sales. So, there is a blend of coal that comes and based on that, the tariff is written.
- Atul Tiwari:** About ₹ 7 to ₹ 8, is that rough ballpark, right, I mean fuel cost wise?

- Praveer Sinha:** Yes. It is in that range I would say ₹ 6.50 to ₹ 7.
- Moderator:** Our next question is from the line of Deepika Mundra with JPMorgan. Please go ahead.
- Deepika Mundra:** Sir, on the receivables part, could you quantify as to what is the additional receivable from Mundra? And similarly, we see that the regulatory assets across the Discoms, some of them have been going up. Can you talk a little bit about that, what's driving the increase over there?
- Praveer Sinha:** Regulatory asset is basically in the Discoms only whereby there is an arrangement where if the tariff goes up or the cost of generation goes up or the cost of power procurement goes up, then you are allowed to take it up with the regulator who subsequently gives it by additional tariff or additional surcharges that has to be charged. In some cases, it is the additional power purchase adjustment costs. So, in case of Mumbai operations, it has gone up. The details of the regulatory assets have been also shared with you in Slide 31. And you can see over there what sort of cost increases have happened.
- Deepika Mundra:** So, are you likely to receive a revised tariff order soon? Or do you think that this continues to build up through the year?
- Praveer Sinha:** So, what happens is that the regulator allows a certain amount to be adjusted as a part of power purchase adjustment. We've already allowed that in Mumbai, a certain quantum, not the full quantum. Similarly, in Delhi also, there is a power purchase adjustment and a special powers purchase adjustment, which is there in the surcharge. So, the whole objective is that over a period of time, it can be amortized and if it gets delayed then they continue to pay interest for the outstanding regulatory assets.
- Deepika Mundra:** And on the transmission part, you've mentioned once again about significant opportunities. Could you talk us through whether these are interstate or intrastate projects? And what is the bid environment currently like for transmission?
- Praveer Sinha:** So, these are of different types. Some of them are interstate, some of them are intrastate, some of them are green corridors. And there are a large number of projects which are coming up in the next 10 years, something like ₹ 42,000 crore of projects are coming up. And these are basically to meet the requirement of renewable power to be transmitted within the state as well as interstate. Of course we are participating, but it's a tough market in terms of a large number of people who are there & a large number of competitors. But with better technology and use of TATA Projects as in-house partner for implementing, we feel we have a much better chances of winning many of these projects.
- Deepika Mundra:** And sir, would it be possible to get the Mundra power plant profit/loss for the quarter? And similarly, you mentioned about the coal profit not being offset. Does that get offset once the supplementary PPA or the revised PPA gets effective?

Praveer Sinha: It depends what sort of arrangement we come out with. So, at this stage, there is nothing like that, and it's premature to say anything about this. But as and when it gets decided, we'll share it. The other details, Rahul will share with you on Mundra. Now that Mundra is part of TATA Power, they will have to cull that out and share that.

Moderator: Our next question is from the line of Rajesh Majumdar with B&K Securities. Please go ahead.

Rajesh Majumdar: So, I had a question on the Discom model because we have been at this Discom business for some time now. And at one stage, we were talking about meaningful profits from the Discom business, say, in 4 to 5 years. Now if you look at CESU, it's been around for some time and still it's not generating any kind of meaningful profit and the profit stream is also very erratic as someone pointed out. So, when is it that this Discoms model is going to be generating or showing up a reasonable number of profitability that we can see in our business? That was the first question.

Praveer Sinha: Rajesh, the Odisha Discom was the first one, the Central Discom was taken on 1st June 2020, and this was the COVID period. In last 2 years, it has made profit. Last year was the first full year of operation, and it has made profit. I don't have the number, but I can tell you that it has made substantial profit last financial year. In this quarter also, it has made profit. And the type of changes that it has brought in the Central Odisha, the same type of changes are happening in the other 3 Discoms also. And all the Discoms last year made profits. So, I think earlier when we had bid, our projection was that first 3 years, we'll not make profit and the fourth year onwards, we'll make profit. So, we've actually done very well in the distribution in Odisha. Secondly, there are basically 3 profit drivers in distribution business. First is on the Capex that you incur, you get a return on equity. Secondly is on the reduction of AT&C loss, and the billing efficiency, you get incentive, if it is better than whatever is the benchmark that has been set by the regulator or the trajectory that has been set. And the third is, if you do any collections of old receivables before takeover, you get a certain incentive on the assets. In all these 3, we have been getting faring well. The Capex has been incurred in last few months. The benefit of that will start coming in the subsequent months in the subsequent quarters because the capitalization has not happened that way. Now once that also happens then the profit will become much more robust. And I'm sure in the next 1 year, you will see a bump up in the profit in all these Discoms.

Rajesh Majumdar: So, sir, FY 24-25 will be a reasonable year to assume some kind of meaningful profits from these?

Praveer Sinha: More than meaningful.

Rajesh Majumdar: And sir, my second question was probably I missed out first part of your conversation. On the TATA Projects, is this a one-off kind of loss do we take because the revenues are not down but

it is up. It's not as the revenues are down, but still the loss is quite substantial. So, is it like we take it as a one-off here?

Praveer Sinha: So for Tata Projects we have projected what will be the cost to completion and we are booking losses based on that. So, it's not that they have incurred loss already. But on cost to completion basis, we are taking the loss and that is being considered. So, you need to consider it from that aspect. It's not that the revenue has come down. But we expect that when it gets completed, it will incur a loss and we are considering that well.

Rajesh Majumdar: So, it is not a percentage of completion accounting method, is it?

Praveer Sinha: Yes.

Moderator: Our next question is from the line of Girish Achhipalia with Morgan Stanley. Please go ahead.

Girish Achhipalia: I just wanted to understand what is being discussed with the regulator or under the supplemental PPA - is this about the profit sharing under Indonesia, which is being ironed out because the HBA spoke about a certain formula? Or is there something else? And under Section 11, has the regulator completely allowed all profit that you had in Indonesia? So, one clarification on Mundra. And the second thing was on bill discounting, as of 31st of March, I think you had ₹ 11.5 billion of bill discounting done and over and above that, the receivables have now gone up. So, has the bill discounting come down? Or what's the level of bill discounting now at the quarter end? And the third one was on Capex. We're spending about ₹ 10,000 crore on renewables. If you could just break it out for us, does this include the ₹ 3,000 crore of module manufacturing and how much commissioning are we expecting out of that balance if ₹ 3,000 crore is against the ₹ 10,000?

Praveer Sinha: So, Girish, on your first question, I've already replied it 4-5 times that under Section 11, it's a full pass-through, there is no adjustment. And the regulator order is expected. So, we have to wait for the regulator order to really know what exactly the final terms are, but the concept is that and the law is that if under Section 11, if you incur any cost, it has to be fully paid for, both the fixed and the variable cost. Secondly, on the bill discounting, the details, we will furnish you what has been done in terms of the discounting. And what is the third question?

Girish Achhipalia: Breakup of renewable Capex.

Praveer Sinha: Okay. So, that also we'll share with you. You are 100% right that the ₹ 3,000 crore that we will incur in the manufacturing is part of the ₹ 10,000 crore, and overall ₹ 14,000 crore that we will spend in this financial year. And the projects which are ongoing projects, utility-scale projects that we are doing, those will be the balance. We've already implemented, I think, 275MW in the first quarter and there's another 225MW which we have commissioned in this month. So, all that will be part of the Capex that we incur in this financial year.

- Girish Achhipalia:** So, supplementary PPA, is there a discussion around Indonesian coal profit or there is no discussion? And they will also treat it similar to the regulator?
- Praveer Sinha:** We are still waiting for a final decision from CERC on the Section 11, and then we will be discussing the supplementary PPA and what sort of arrangement it should have.
- Moderator:** Next question comes from the line of Anuj Upadhyay with HDFC Securities. Please go ahead.
- Anuj Upadhyay:** Just a follow-up, on the supplementary PPA arrangement you mentioned. So, this is only with Gujarat, which we would be discussing or we have other states as well on board?
- Praveer Sinha:** So, at this stage, we are discussing with Gujarat. So, once we deal with them, the understanding is that the similar arrangement can be at executive level.
- Anuj Upadhyay:** So, the one which we are having with Gujarat is for the same quantum we had with them earlier.
- Praveer Sinha:** Yes. The quantum is the same with all the 5 procurers.
- Anuj Upadhyay:** Sir, coming to the EPC side. On the last call, sir, you had mentioned that the new orders which we have booked in the division are now benchmarked with the new module prices. And hence, the margin should improve from the Q1 onwards, but couldn't happen as on date. Could you just quantify that of the current order book of around roughly ₹ 14,000-odd crore in the EPC, what quantum in the book would be with the new module prices? So, at least we have some kind of clarity on the margin trend going ahead.
- Praveer Sinha:** So, what happens is that the projects which had got implemented in Q1 are the projects which is taking more than a year back. The 16 projects which have come in the last 6 months to 9 months are the projects that have factored in the new module costs and those are on a much higher margin. For the earlier ones we had projected that module prices could come down in previous quarters that did not happen.
- Anuj Upadhyay:** And lastly, sir, as I had mentioned earlier, if you can share the details of Mundra Indonesian coal, that would be helpful.
- Praveer Sinha:** Okay.
- Moderator:** Our next question is from the line of Murtuza Arsiwalla with Kotak Securities. Please go ahead.
- Murtuza Arsiwalla:** A couple of questions, again, revolving around coal and CGPL. One, there is this ₹ 2,000 crore working capital increase that we see on a consolidated level. Could you highlight if any part of it is to do with CGPL because you may be recording the revenues but not received any of the cash. That's the first one. Second is, when I'm looking at some of the numbers that are there in

the presentation, you're talking about coal cluster profits of about ₹968 crore and combined profits of ₹ 500 crore. So, is the math around ₹ 460 crore of losses around Mundra, right, the implicit math? And again, the request to please provide all of the details on CGPL and coal so that we are better able to appreciate the financials.

Praveer Sinha: Yes. We'll share the details.

Murtuza Arsiwalla: And on the working capital and the computation of loss?

Praveer Sinha: Yes. On that also we'll share the details.

Moderator: Our next question comes from the line of Ankit Patel with L&T Mutual Funds. Please go ahead.

Ankit Patel: I had a question again, on the Mundra side only. Sir, if I see the PLF level that you have reported at TATA Power level, they remain similar to the Q4. And the revenues have gone up at the TATA Power stand-alone level, yet the profitability is down at EBITDA level. So, I wanted to understand whether this current Section 11 the way in which the plant is running, is it even profitable?

Sanjeev Churiwala: I think when we look at the stand-alone of TATA Power, it's a combination of various things, including CGPL, the Mundra Power Plant, right. So, I think it will be difficult to strip down separately on what's the impact on the stand-alone on the Mundra plant. But as we have discussed, we will separately try and work it out and share. Of course, as Dr. Sinha has said that at the moment we're looking at the CERC rate and that is supposed to be in principle to be a pass-through, and we have taken up the matter further with CERC to kind of get a revised tariff. Till that is implemented, it will be very difficult to decode as to what is the exact impact of that. So, I think you'll have to just wait for some more time and maybe in the next quarter, we'll have a better clarity.

Ankit Patel: The second question was around TATA Projects again. So, in the Q4, also there was a significant amount of negative booking around Tata Project and our understanding, and I think the discussion at the time was that probably with some kind of cleanup as well as the amount of commodity price impact. Now again, in this Q1, there is a booking and you were mentioning that it is on account of some cost accounting. I want to understand if this is a trend that would continue throughout this sector? Or this is something that would stop at some point in time?

Sanjeev Churiwala: No. I think, again, Dr. Sinha in reply to the previous question has mentioned that there are certain projects which we have taken up earlier, and there is a true-up on the cost to completion of that and to that extent, that our TATA Projects took those losses. We don't expect further big losses to come in the subsequent quarters. And I guess what you see right now is basically that cost to completion for some of the projects that was taken up earlier, which had, of course, had been

impacted in the previous quarters as well and now, but I think we're almost close to now getting back to normal there.

Moderator: Our next question comes from the line of Gopal Nawandhar with SBI Life. Please go ahead.

Gopal Nawandhar: I think my question was also on the write-off of the provisioning for the EPC businesses, both for TATA Projects and Solar. We have been like in the last few quarters been giving this comfort in terms of like order book, you've already taken some bit of provision, but still it is continuing for some more quarters. So, just wanted to get some comfort on that. And the second question was on this ₹3,000 crore increase in the receivables. If you can just highlight from which areas it is coming? How much is from Mundra? How much is on renewable and solar EPC?

Praveer Sinha: So, as far as the receivables are concerned, Rahul, we'll share the details with you. As far as the EPC for solar is concerned, last quarter, it made a very good profit. It's only in this quarter, they have been stressed. And as we mentioned that this is because of some of the older projects, which were getting implemented. And we had a huge hit also of the exchange rate. And now that we are fully hedged it should not happen in the future. Secondly, on TATA Projects, we took a stand last quarter and this quarter also that we need to clean up all the projects where we have probability of having losses. And based on our assessment, we have taken a hit last quarter also in this quarter. And hopefully, now that all those projects have been identified and the provisions have been made, going forward, this will not have an impact in the future.

Gopal Nawandhar: And sir, would you like to share, are we still running all 3 units in the Mundra?

Praveer Sinha: Yes, we are running all 3.

Moderator: Our next question comes from the line of Apoorva Bahadur with Investec. Please go ahead.

Apoorva Bahadur: Congratulations on strong results. I wanted to understand in one of the notes to accounts, you mentioned that an additional revenue of ₹277 crore has been recognized from Mundra. So, sir, this was under the supplemental PPA. Is this correct? And also, is the ₹277 crore only for the current period? Or does it pertain to the additional revenue, which for power supply during the previous quarter on the supplemental PPA?

Sanjeev Churiwala: This is the revenue accounting because we are running 3 units. So, to that extent, the revenue have been accounted for. So, there's nothing exceptional about it. We can give you the breakup of this. That is not an issue.

Apoorva Bahadur: So, this is only for the period between 1st April to 5th May.

Sanjeev Churiwala: Correct.

- Apoorva Bahadur:** Right. Fair enough. And sir, we are recording the full fixed charge for the plant and billing it to all these states as of now?
- Sanjeev Churiwala:** Yes. So, we are kind of accounting as per the CERC orders.
- Apoorva Bahadur:** Sir, also in the distribution business, we are seeing a lot of your private competitors are entering into the smart metering business. So, any plans for us, given that we have a fairly large franchise?
- Praveer Sinha:** In the distribution business, we are the largest in the country with 12 million customers. That is sum total of all the other private sector players in the country. And the type of understanding and the knowledge and experience that our team has, we are looking at taking it up in other states also, obviously the private sector opportunities or there are also the licensing when it happens. So, we are definitely looking at being the biggest player in the distribution in the country.
- Apoorva Bahadur:** And on smart metering?
- Praveer Sinha:** Smart metering also, we have done the maximum smart metering for our customers in Delhi and Mumbai as well as in Odisha. So, we are now implementing in all the 4 Discoms. And we will become not only a big player of smart meters for ourselves, but we will also do it for various other state Discoms under the government scheme of RDSS.
- Apoorva Bahadur:** Sir, last question from my side, and this is on the coal business. So, are we meeting the DMO obligation? So, basically, wanting to understand that is this a case that this quarter, we also had the mix benefit as in higher share of export resulting in higher profits?
- Praveer Sinha:** That's a given thing that you have to meet the DMO obligation. And the DMO obligation is not right through the year, but in certain months, depending upon the quality of coal that you produce, the local power company, PLN seeks that much quantity. So, in the month of January, February, we had supplied a huge quantity of coal under our DMO obligation. And that is 25% of the total capacity of the coal that is mined by us. So, we will meet that requirement and it's done through the year, not equally but spread out in different months.
- Apoorva Bahadur:** Sir, so in this quarter we will be below 25% or above 25%?
- Praveer Sinha:** Since we did a lot of supplies, Indonesia works from January to December calendar. So, we've already done a large quantity this year. And hopefully, whatever is the balancing will be done in the few months.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint, we will take our last question for the day. It's from the line of Rahul Modi with ICICI Securities. Please go ahead.

- Rahul Modi:** I'll just slip in a quick last question. Sir, maybe repetitive. Just to understand, sir, as you mentioned that the interim tariff, which was given that was I think the benchmark indices were different or it was behaving differently. Sir, in the 2 weeks that you said that, obviously, there was a certain amount of difference. So, are we billing as per the actual costs? Or are we billing as per the interim tariff which you had given?
- Praveer Sinha:** We are billing as per the interim tariffs. Once the actual cost details are given to CERC and they determine it and notify it, then whatever is the difference, we bill too.
- Rahul Modi:** So, if I'm not understanding it incorrectly, if this is coming in, then we'll have a prior period pull up on that front? Whatever, for a couple of months or a couple of weeks where we've not been able to charge the full amount?
- Praveer Sinha:** Yes. Whatever is the actual amount will real happen. So, whether it is up or down, that once let the tariff order come.
- Moderator:** Thank you. I would now like to turn the conference over to Dr. Sinha for closing comments.
- Praveer Sinha:** Thank you to everyone for joining in the call. And whatever details we could not submit today, my colleague, Rahul, will share that with you. And in case you have any other queries, please connect with Rahul and our Investor Relations team. We'll be more than happy to furnish you the details. Once again, take care and look forward to catching up again with you. Thank you. And thank you, Ryan, for conducting the call.
- Moderator:** Thank you, sir. On behalf of the TATA Power Company, that concludes this conference. Thank you for joining us. You may now disconnect your lines.