

**TATA POWER**

# “Tata Power Q2 FY19 Analyst Conference Call”

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**TATA POWER**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Tata Power Q2 FY19 Analyst Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Praveer Sinha – MD, Tata Power and Mr. Ramesh Subramanyam – CFO, Tata Power. Thank you and over to you sir.

**Praveer Sinha:** Good evening, ladies and gentlemen and welcome to the earnings call to discuss the Q2 results. I am sure all of you had a chance to look at the results which we had announced earlier in the day. As you can see from the performance of the quarter, all the businesses of the company have reported a consistent performance. The performance of most of the businesses actually has shown an improvement and on consolidated basis, the EBITDA has remained around 2600 crores for the quarter which means on an annual basis, it could cross above 10,000 crores. The renewable business which has been a focus area for the company has done very good. In this quarter, we have added 301 megawatt and also because of this reason, the renewable business EBITDA has grown by 19% which is approximately an additional 100 crores in the current year. We are continuing to grow in the renewable business and we have participated in few of the bids, but we have been very cautious and we have been able to get above 400 megawatt of bids in this year.

To start with, let me also tell you about some of the developments about CGPL. As all of you are aware, the high-power committee which was set up by government of Gujarat submitted the report and based on the report, the compensation for under recoveries has to be accounted for. The government of Gujarat has approached the honourable Supreme Court for modifying the PPA which has been allowed today by the honourable Supreme Court and they have asked that the modified or the supplementary PPA can be submitted to CERC and they should decide on the same within 8 weeks. Also, the company has refinanced the entire ECB loans and nearly \$770 million has been replaced with rupee loans and bonds. This will help not only in reducing the interest cost but will also lead to the deferment of repayments and thereby easing the cash flow on CGPL and Tata Power. This will also reduce the volatility in P&L due to mark-to-market entries on derivative due to the currency and interest rate fluctuation.

Also, the company has taken steps to reduce the cost of generation by having a higher mix of low GCV coal which has actually now increased to 30% from 10% last year and we hope that in spite of the increasing coal prices and the currency depreciation, the total impact remains very restricted. We have also seen that the DMO obligations for the coal mining company is still putting pressure on the returns of the coal business and that we expect will continue for next two quarters. We have been taking various initiatives on deleveraging as all of you are aware we had already divested Tata Communications and the amount has been received by us and in fact 1900 to 2000 crores of that amount was used to pay the debt of CGPL. Similarly, for the defence business, we have already announced that the hearing in the NCLT took place in October and the AGM for this has been fixed for 12th December and hopefully, we will be able to complete all the statutory obligations and clearance within next 6 months. The company is also pursuing

all the divestment opportunity, which we have been informing you from time to time. The company has also started receiving the payment from Arutmin stake sale. We have already got payment of \$150 million, out of which \$22 million came in this quarter and we expect another \$30 million to come within the close of March 2019.

Again, the divestment will be looked at in some of the other opportunities that we have in different countries and we have been able to pay nearly 100 million of loan for the coal investment company. The company also participated in Prayagraj bidding process which is 1980 megawatt coal based plant through the Resurgent platform and we have given an offer of 6000 crores at the OTS and we expect that this transaction will get completed in next few months. The company has taken huge number of initiatives especially in consumer roof top business and we have already started it in few markets including in Mumbai and Delhi and we expect that over a period of time, this will grow in many more cities in the country. The company has also participated in the bidding process for CESU in Odisha and the bid evaluation process is under progress and we hope in next few months, we will see the outcome of this process. We have also taken steps to tie up the Trombay generation with best and the proposal is under consideration of both BEST and MERC and we expect that in next few months this will also get concluded whereby the existing PPA and the existing arrangement can be continued for next 5 years.

Generally, you would see that by on one side, the company is consolidating on various business areas, it has also taken a very clear roadmap for growth, our existing and new businesses and we expect that in next few quarters, we will be able to share with you more details of the opportunities that we have been explored. We can now open the floor for question and answer.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the Sumit Kishore from JP Morgan. Please go ahead.

**Sumit Kishore:** My first question is on Mundra, if you are in possession of the Supreme Court order today, could you give us some of the specifics mentioned there, also commenting on the timelines from here and how do you see it panning out?

**Praveer Sinha:** We have not got the order copy as yet and we are expecting either late evening or tomorrow morning to get the order copy but whatever we have heard it from the news and from our council over there in the court is that the court has said that we can go ahead with the changing of the PPA and the same has to be submitted to the regulatory commission, the competent authority and the competent authority in this case, CERC needs to decide on the same within 8 weeks period. That is what we understand at this stage.

**Sumit Kishore:** And the revised PPA would be drafted by the HPC or Tata Power ?

**Praveer Sinha:** What we understand is that there is a draft supplementary PPA which is part of the HPC report and that contains all the changes that has been given as a recommendation by the HPC and it is now for the states to take a call on what changes they would like to incorporate in the supplementary PPA and take into the competent authority.

- Sumit Kishore:** And that process would be completed within 2 weeks or is what I estimate?
- Praveer Sinha:** No. The whole process has to be completed in 8 weeks. It has not been divided into each activity.
- Sumit Kishore:** And so within these 8 weeks, the CERC would also take into account the hearing from consumer groups and whatever concerns they have, so can this CERC order be once again taken to APTEL and thereafter to Supreme Court like the last time around or is there something different the Supreme Court has told us at the very outset?
- Praveer Sinha:** I think what we need to look at it is that how the HPC report has been finalized and the HPC report has been finalized through a process of consultation between various state holders and that included the consumer groups, included all the state government and the distribution companies, included the lenders and included the suppliers of power from the developers of these projects. So, there has been huge amount of consultation process, which has been there and hopefully whatever is now decided thing between the beneficiaries and the seller of this power, there is a good understanding and it should not take too much of time for them to come to the final settlement and approach the CERC.
- Sumit Kishore:** One last bookkeeping question, what is the total debt in the Mundra SPV as well as the associated debt at the standalone level and could you also give us the total acquisition debt remaining on book for the coal mines?
- Ramesh Subramanyam:** Sumit, the current outstanding in Mundra is about 8000 crores and the SPV debt is about 700 million.
- Moderator:** Thank you. The next question is from the line of Venkatesh from Citibank. Please go ahead.
- Venkatesh:** My first question is on the HPC report. Now, you have mentioned that there has been a lot of consultation and everybody are in understanding about what is happening, but our reading of the report suggests something else because it suggests that the consumer group, basically Prayag and Energy Watchdog has actually not really agreed in totality to what has been said in the report. They have not agreed to this, they have also objected to the formation of the HPC committee when the tariff hike was given, so they have objected to the formation of the three member committee and also they have said that the decision needs to be taken based on whatever judgement was taken in April 2017. We also read newspaper reports where they have highlighted that they will be opposing this, so isn't there a possibility that this could be appealed in the Appellate Tribunal and following up once again in the Supreme Court or is the Supreme Court order so clear that this appeal cannot be made?
- Praveer Sinha:** I think what you are mentioning was something which was repeated by them before the honourable Supreme Court and today, Supreme Court has decided that the revised PPA should be looked into and it should be submitted to the competent authority and let the competent authority decide on it as it deems fit. So, it is actually for the competent authority to decide and we may not be in a position to comment on this.

**Venkatesh:** Thank you sir for that. My second question is on the HPC committee report. Now, if I try to figure out how this thing probably works, let us assume a scenario that the HPC committee report is implemented and got implemented. In the current quarter, am I right that your fuel cost under recovery was 83 paisa per kilometre, was that the correct number?

**Praveer Sinha:** Actually, at the fuel FOB level, first half has been about 90 paisa.

**Venkatesh:** So, if we work with that number, is it basically means that the HPC thinks that you should get a recovery cost as 90 paisa, less whatever is the coal mining profits in a proportionate manner. I mean if I look at your coal mining numbers in this quarter, you have done something like 15 million tonnes at the coal mining level without including the infra and transportation, you have done like 322 crores kind of a profit. So, if I assume that Mundra million tonnes per year that will work out to roughly maybe 200 crores kind of a profit, so 200 crores approximately divided by 25,000, it works to around 9 paisa per kilowatt hour, but what the regulator case at a minimum of 15 paisa has to be deducted. So, is it correct if you assume that in a current quarter if this has gone through, you would have got a hike of anywhere between 83 paisa minus 58 paisa per kilowatt hour. Would that be the quantum of the hike or I am overestimating the number?

**Praveer Sinha:** Look first of all, we have to first see what finally the recommendations done on to be, broadly as to the principle laid down in the regulation, 20 paisa towards this so called lenders-related impact and a minimum of 15 paisa towards the mining impact, just 35 paisa, it is given that 35 paisa will be deducted. Now above that, rupee, the impact of the coal mining on actual basis from time to time. So, as we speak today, around 30 paisa is the number which we are thinking that would be the coal mining related impact. So, 30 plus lenders 20, about 50 paisa will be the deduction as per us but that is something which we will be subject to what finally emerges as the recommendation and what gets accepted.

**Venkatesh:** So, based on your understanding, ballpark in the second quarter of the current year, you would have got a 35 paisa hike, am I correct?

**Praveer Sinha:** Yes.

**Venkatesh:** Sir one final question. How much money is still outstanding from Arutmin? Last we knew it was close to around \$290 million, is it still at that level, \$290 to \$300 million?

**Praveer Sinha:** We got about \$150 million and therefore it is about 155 is the right number, so we left with 245 million. So, 290 is down to 245.

**Venkatesh:** All the very best, sir. I hope there is a positive result in the next 2 months.

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

- Apurva Bahadur:** Sir, wanted to speak on this under recovery at Maithon, so there has been some under recovery due to coal issue. Could you throw some light on this? What is the total amount of under recovery and should we expect this situation to improve during the year?
- Praveer Sinha:** Under recovery is essentially because of availability and the plant load factor availability was down from 98% to 72%. So, that is the main reason why you see the overall impact of about 28 crores in the quarter.
- Ramesh Subramanyam:** Things are improving and also organizing some imported coal which could take care of partly the shortages from the domestic.
- Apurva Bahadur:** Sir, also if I see the difference between the coal mine during the quarter at Bumi and the coal sold, it is slightly on the higher side. Any specific reason for this?
- Praveer Sinha:** One is evenly adjustment that because otherwise stripping ratios have not changed and that is the only thing and secondly, the coal sold has been affected somewhat by market pressures, but the answer to your question is mostly inventories.
- Apurva Bahadur:** And lastly again on these recommendations of the HPC, so basically wanted to understand how this fuel cost basically coal profit sharing this entire thing will work?
- Praveer Sinha:** As far as we know the recommendation says that let us consider the current actual market price and then some standard parameters which would be probably regulated. Today the parameter which regulators uses and using that we will arrive at a compensation at the current cost and from there whatever the difference between that cost and the actual tariff which is today as per the tariff that difference would be paid subject to adjustments on account of the coal mine profit related adjustment and the lender deductions on account of lenders burden. So, these two factors will be deducted in arriving at the compensation. That is the formula.
- Moderator:** Thank you. The next question is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.
- Abhishek Puri:** Sir, two things on this lenders deduction formula that you have mentioned. Is that a direct pass through to the lenders or is that something you have to negotiate and then get this affected in your contracts?
- Praveer Sinha:** Abhishek, as far as we are concerned, the first fact is the deduction, 20 paisa is going to be deducted. How we handle with the lenders is a completely different story and whether we will be able to negotiate etc. is a separate story because you will have to find out how we can do that. As you know, restructuring happens only in NPAs, not otherwise easily. So, we have to find ways of it, we have not yet crossed that bridge but deduction of the 20 paisa is the assured thing.
- Abhishek Puri:** So, 20 paisa for that and 15 paisa for the mining profit you said.
- Praveer Sinha:** Yes, 15 is the minimum.

- Abhishek Puri:** And the other current price?
- Praveer Sinha:** Correct, actual will be at current price.
- Abhishek Puri:** In terms of your debt and the interest cost in the current quarter, I am seeing that across the assets, the interest cost has gone up quite considerably, so if you can just briefly touch upon what all changes you have done in the \$777 million conversion from Forex loan to INR loan also, has that been affected in the current quarter or it will come up going forward?
- Praveer Sinha:** So, combination of things Abhishek. One is that the refinancing has also resulted in unwinding related cost. Then there is also we had taken some low-cost commercial papers that got converted into proper long-term funding, so that is one additional impact which is actually we are mitigating the risk of short-term borrowing. Then TPREL, we had additional capacity coming after.
- Abhishek Puri:** Absolutely, commercial paper is for renewables, right?
- Praveer Sinha:** No, it is across the board. Both the CGPL also, we had taken CPs backed by and also in the WREL also, so all those got refinanced and I think this really answers the rest. The overall debt has actually come down.
- Abhishek Puri:** What could be the one-off component here of refinancing cost here?
- Praveer Sinha:** About 50 crores.
- Abhishek Puri:** And that is across the assets?
- Praveer Sinha:** Essentially CGPL unwinding.
- Abhishek Puri:** This is CGPL?
- Praveer Sinha:** Yes.
- Abhishek Puri:** And in terms of lastly on your renewables, I am looking that EBITDA has gone up for you, but PAT is down again because the interest cost has been higher. Is it because of the commissioning of this balance capacity that you have mentioned?
- Praveer Sinha:** Yes, exactly that. And some amount of PPs which got converted into long-term loan would have a slight increase in the average cost.
- Abhishek Puri:** If I can ask just one more question, what was the DMO quantum in the current quarter and why was the sales down 11%? You mentioned some inventory adjustment, but I didn't understand that, sorry?

**Praveer Sinha:** Inventory adjustment was to answer would be in sales and production, but I think the DMO adjustment for the quarter is about 9 million for Tata Power share. That is the kind of impact that the DMO adjustment has, so at the current rate talking about 50 to 60 crores.

**Abhishek Puri:** And there has been some policy flip flop from the Indonesian government side on this, I mean I was reading the papers earlier that they were withdrawing it and then they denied it after couple of days, so this DMO still remains till the end of the current calendar year?

**Praveer Sinha:** Yes, as of now this law is valid till March 19. It was passed through a proper what they call it as an issuance of ordinance. So, therefore, just lift through March 19, thereafter what happens we don't know.

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

**Mohit Kumar:** My first question pertains to the Mundra court case. As I understand, the Gujarat government has petitioned to decide whether the PPA can be amended clause 18.4, some surprise that the Supreme Court has given direction directly without going through the niti grities of the particular clause. Can you please clarify that?

**Praveer Sinha:** The issue before Supreme Court was that can the PPA be amended or not and whether it will be contrary to the earlier decision of Supreme Court. So, Supreme Court is not getting into the merits of it, but it is only looking at the principle whether the PPA can be amended or not and the Supreme Court has decided that yes, the PPA can be amended as per the clause of the PPA and as per the earlier order where it did not restrict the amendment of the PPA and that is the correction that Supreme Court has given.

**Mohit Kumar:** Sir, on the Prayagraj deal sir, we are paying, I think the amount in question is around 60 billion, is this for 85% stake or 100% stake, can you please throw some light on that?

**Praveer Sinha:** It is 85% stake.

**Mohit Kumar:** So, how the deal is structured?

**Praveer Sinha:** We have to quote for that share. So, let me clarify. The initial stake which we are going to get is 75% and the deal is such that we have to quote for the debt which we believe is sustainable and that is the basis on which we are getting that stake. The rest of the entire unsustainable debt is converted into, basically it is write-off of the bank will be converted into appropriate instruments at a later point of time. That is the way the game it is. The 75% is the initial stake.

**Mohit Kumar:** And why there has the delay in the finalization of the steel, is there any?

**Praveer Sinha:** No, there is no delay, it is the process, because all the banks have to approve and as we know now, barring the couple of banks who are in the final stages of approval, all are approved. So,

now we are waiting for the final approval. Once that is there, then documentation of SPA and other things will happen.

**Mohit Kumar:** And sir last question is regarding renewables. Sir, what is the status of demerger of the renewables on the standalone and second, how much capacity of one in the recent 6 months under bids?

**Praveer Sinha:** So, far this year 400 makeover and your other question is about the demerger. It is still in NCLT and the process is on.

**Mohit Kumar:** How much time do you expect it to...?

**Praveer Sinha:** The process is going on, some adjournments were sought, some explanations were asked, I think it is still going on. So, I think it is three to six months affair.

**Moderator:** Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

**Puneet Gulati:** Just trying to understand what is the cost of production for KPC and why was this up this quarter?

**Praveer Sinha:** Actually, fuel cost is the big driver for the cost increase. Actually, that is the major cost increase that has happened and then some amount of repairs in one end and is slightly higher and that is main reason.

**Puneet Gulati:** So, COGS was broadly in line but cost of production will include the other expenses which is repairs?

**Praveer Sinha:** Yes.

**Puneet Gulati:** And trade receivable was also up this quarter, almost 4200 crores versus 2800, what is getting added this time?

**Praveer Sinha:** You are talking about KPC?

**Puneet Gulati:** No, consolidated trade receivables over 96 crores?

**Praveer Sinha:** It is largely regulatory related receivables in CGPL and Mundra which are basically around the change in law and couple of other billings that happened and they are yet to be recovered and they are in the process of getting regular approvals from the regulated CERC and basically CERC.

**Puneet Gulati:** This is for Mundra asset?

**Praveer Sinha:** Yes, Mundra plus Maithon, both. Both had regulatory related assets which are building up.

**Moderator:** Thank you. The next question is from the line of Inderjeet Bhatia from Macquaire. Please go ahead.

**Inderjeet Bhatia:** My first question is on this Prayagraj and now is there amount or a number in mind as to see through this platform or through directly, how much assets or in value terms, how much Tata Power is willing to take going forward?

**Praveer Sinha:** One public information which you have in this platform initially was set up for about \$860 million of equity commitments. So, basically right now we are working on that basis, so you know what is the cost of some of these stressed assets are playing and you can work backwards, so we don't have any target there. We have an upper limit committed by the investors and whatever is feasible within that, we do.

**Inderjeet Bhatia:** So, is there a likelihood that will increase the size of this order, is that under consideration or Tata Power tries to look at going independently into some of these bids?

**Praveer Sinha:** Right now, I don't think you are talking about it because we are yet to even start to invest there. Please understand the first transaction is still under progress, so I think once we reach that stage, we will have to react.

**Inderjeet Bhatia:** My second question is on these stressed assets, what do you think this 40,000 megawatt out in the market, which do not have full PPAs, what is your outlook on the PPA market and what do you think would be the clearing price? Is there an availability or do you think merger market can absorb kind of capacity?

**Praveer Sinha:** Look, there are very different views in the market because the pressure created by additional renewables is already felt and at the same time one does not know how renewables will progress given the recent indications of how response to renewable bidding has been. So, I think with the combination of these factors, basically we are right now in the middle because we believe that there is the possibility that there would be a consistent rise in the market and therefore eventually there will be need for thermal power, but then the whole issue is that there is lot of underutilization of capacities and whatever increase in demand that happens, it will be filled up by the 40,000 megawatt odd which is lying unused. So, this will continue to depress the prices is our view, but you never know as we seen in this year also has been spurt in exchange prices, but exchange is only 3% of the total. So, it is not indicative of an overall situation and also the other view is about PPA that one is not sure whether long-term PPAs are going to come anytime soon because we haven't seen any of them in the last few years.

**Inderjeet Bhatia:** If I can squeeze one more, on this roof top solar, is there sense as to what do you think could be the potential size of the market in a city like Mumbai, in next 3 years, 5 years, how much could be roof top solar?

**Praveer Sinha:** When you look at the market, you typically look at what is the roof area that is available. In Mumbai on a very conservative estimate, it is expected that it would be 1000 megawatt, but how

much of it will really get translated into business would be maybe 50% of that and out of that 50%, we would be about 25 to 30% on an average.

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

**Rahul Modi:** Sir, just a couple of questions. Sir on the debt side as you mentioned that we have taken some fresh debt on the capacities added in the renewable space, can you just spell out as to what is the fresh debt added because after the repayment of around 2000 odd crores, the number net debt still flattish so on account of?

**Praveer Sinha:** It is around maybe 700 odd crores.

**Rahul Modi:** And sir, the balance would be, because the number looks a bit flattish on the net debt side?

**Praveer Sinha:** Flattish in the sense, your question is we are consolidated at 46,000 now, net of cash and the other increase which has happened really in the CGPL working capital because of the build up of core inventory as well as debtors. That is total increase about 1500 crores. That of course will go down in the next two quarters.

**Rahul Modi:** And sir just lastly one more question with regard to Prayagraj. Now I believe the plant has now been referred to the NCLT, so if you can just throw in terms of timelines we are looking at the hearing in NCLT in November on the plant and how do we look at it?

**Praveer Sinha:** The banks refer these assets to NCLT because they had to comply with the RBI regulation. Now in parallel of course many of these assets are undergoing a parallel effort by the banks to close the transaction through their own initiative. Prayagraj is one of them and our understanding is that while they had to comply with RBI regulations as soon as and since now we have got an LOI and the banks are under the process of getting approval. Once the approval is there, then automatically this may not go through the process of NCLT. It will then be taken out of NCLT once the bank settles it outside. So, we will have to wait and see how this process kind of moves from hereon, but process has just started outside obviously.

**Rahul Modi:** Sir, just one last thing on this. Sir, in case now I believe the hearing in the Supreme Court would be sometime in November, if there is some kind of just hypothetically if it is not in favour of any kind of extension, then what happens to the asset, will the application from NCLT be withdrawn or what is your discussion with banks on this regard?

**Praveer Sinha:** Our target is of course to close it as early as possible before even the Supreme Court decision, but then at the end of the day, you know the process in NCLT, also has a provision that if the committee of creditors' majority decide they can at any time withdraw it before the final decisions are made.

**Moderator:** Thank you. The next question is from the line of Rahul Murkya from Jefferies. Please go ahead.

- Rahul Murkya:** Sir, just wanted to know what are your CAPEX plans for the next year and for the balance of the year?
- Praveer Sinha:** See, normally CAPEX is mainly on the regulatory CAPEX is around 1000 crores most of the times. We explained that we would be reaching that kind of numbers if we exclude renewable related CAPEX. So, 1000 to 1200 crores is our standard CAPEX on the regulated businesses. Renewable business depends on, so right now we are 400 megawatt of the base which we have won and that CAPEX to the extent it happens when that happen.
- Rahul Murkya:** Sir basically this monetization of this defence business, the funds, the cash that we would get that would be used to do some CAPEX or would be used to fund CAPEX for renewable or would be used for the payment of debt?
- Praveer Sinha:** Look, these are all fungible funds, right. So, overall plan is to bring down overall debt level and also ensure that we provide capital for growth. So, there is a one one-on-one allocation as such. As you can see, we are slowly bringing down the debt equity at a consolidated level, so it really does not matter whether we put this money into renewables or replay loans as long as both the objectives are met as long as they are able to survive the new business equity requirements and also bring down the overall debt level.
- Rahul Murkya:** Sir, any plans of fund raising?
- Praveer Sinha:** We keep raising funds every other day in the market for one reason or the other way, that is refinancing or some new projects, so I don't know what exactly we keep hearing, if you talk about equity fund, then I think as and when we need it, we will definitely come to the market. Right now, there is no such plan in the hand.
- Rahul Murkya:** As of now nothing, okay.
- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.
- Bhavin Vithlani:** Sir couple of clarifications. One, you mentioned the CGPL debt is about 8000 crores, but in the balance sheet it was about 10,500 crores and then this 5,500 crores of perpetual securities. So, 8000 crores is now considering the balance is paid out or?
- Praveer Sinha:** So, perpetual is a separate issue which is equivalent to an equity kind of nature, it is a long-term. Talking about this what you sort 10,000 is now reduced because of infusion of further 2000 crores from the parent. So, we are currently a sum of, I don't know the exact number, it is between 9000 and 8500. The exact number we can share it with you.
- Bhavin Vithlani:** The second question is again on the formula, you mentioned 300 crores which is the profit from coal that could be used as the one that can be used as a discount in tariff, but there is a DDT at Indonesia and there is a tax run foreign dividends in India, would that be also adjusted or they will just take your share of profits in the minds without considering the DDT?

- Praveer Sinha:** First of all, just to clarify, this has got no connection in fiscal flows of money, okay, this is a calculation done, desktop calculation done, and it will be deducted from the compensatory tariff, okay so it is on an actual basis. So, it is a notional basis. The whole question, how the notional amount is arrived, yes it is full of after deducting all the taxes up to India.
- Bhavin Vithlani:** So, the dividend distribution taxes up to India would be considered?
- Praveer Sinha:** Yes.
- Bhavin Vithlani:** Okay, great and lastly if you could also highlight what is the dollar per tonne impact because of the DMO?
- Praveer Sinha:** About \$5.
- Moderator:** Thank you. The next question is from the line of Anirudh Gangahar from Nomura. Please go ahead.
- Anirudh Gangahar:** Two questions, one on the results per se. The interest cost being higher you mentioned that there are some unwinding costs, so if we want to arrive at the normal interest cost under consolidated accounts, what would be that one-off item and the same way the taxes have been pretty low. Usually we have seen the tax incidents effectively become a lot higher, but this time it is low. Are there any one-offs in the taxes as well?
- Praveer Sinha:** Your first question is about 50 crores is the kind of number on the one-off items in the interest.
- Anirudh Gangahar:** Anything on the tax side sir?
- Praveer Sinha:** On the tax side, we will give you the details. Tax side mostly is influenced also by distribution where we have received the regulatory order and there are always effects of any regulatory order on the tax also, so we will have to give you that figure separately. The other issue was last year we had a SED which is a defence classified and health per se and that created a deferred tax of credit of some 60 crores, so that is not there and current year due to the sale of the non-core assets, we have some brought forward losses and also lower dividend from foreign subsidiaries, all that has resulted in net lower tax number. So, there are 3-4 reasons why it is...
- Anirudh Gangahar:** The second question from my side would be on the high power committee report. You have 5 beneficiaries who would have been consulted in the report. Have all the beneficiaries signed on whatever the HPC report is as there is no question of any state now wanting to do something different and only Gujarat saying okay?
- Praveer Sinha:** Look, there is no sign off procedure here. The HPC consulted all the states, NGOs, lenders, and developers and took their views and came to a conclusion as to what is the rightful way to arrive at a compensation where all stakeholders have equal burden. That was the principle. Now there is no sign off. Nobody has been asked to sign of anything; however, since they were party to the discussions and they have been transparently disclosed or the data has been shared with them

and all the information is available with them and they were party to discussions, it is expected that they are actually aware of the methodology and therefore we find it easy to approve but remember that each state has own process of getting the approvals through the internal machinery which for example work as a cabinets of the respective states also. So, we still have to follow their entire focus, but I think large amount of deliberations have happened and a lot of consensus bidding effort has been made.

**Anirudh Gangahar:** Sir that is helpful. So, just a follow-on on this would be that when you mentioned that the PPA will need to be submitted to CERC for ratification, would the submission be done after all the states have already come on board and they will accept it or is it possible that the CERC approved something in the states, then they say they may or may not agree to it?

**Praveer Sinha:** No, our expectation is that when the CERC is approached, CERC has been called for all the stakeholders to give their views because that is what they have to do as a regulator and therefore at that stage, if there are any points or additional points, they will consider.

**Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

**Bhargav Buddhadev:** Sir, my first question is on what happens to the development in Russia assuming that we get favourable order. So, is the Russian mining venture off or do you still go ahead with that?

**Praveer Sinha:** At this stage, we are looking at the Russian coal mines to develop it along with some partnerships locally or some partnership from here, but these are very early stages especially we need to complete the geological study and also settle on the statutory approvals which are required including the coal jetty that needs to be constructed in the road from the mine through the port. So, lot of preliminary work needs to be done and once we are through with all these activities, we will be in a better position to share details of the project.

**Bhargav Buddhadev:** Secondly sir, just wanted some clarification on this 20 paisa haircut for lenders which has been proposed by HPC. So, does this mean that Tata Power in turn also gets a relief of 20 paisa in the payment commitment to lenders or that doesn't happen to Tata Power?

**Praveer Sinha:** This stage is not entirely clear how that will pan out and one view could be that the lenders, since it is expected to be a contribution of lenders and stakeholders to the project, one could expect them to contribute in real terms. The other is as far as the consumer is concerned, the HPC report says that consumer should not be burdened, at least their burdens to be reduced by 20 paisa. So, let us say one part of the story is very clear, one part of the recommendation is very clear, how between bank and us, how this will be panning out, we will have to wait and see.

**Bhargav Buddhadev:** But was there some calculation being done on this 20 paisa or it is just an arbitrary number which has come out?

**Praveer Sinha:** Certainly, we are thinking how to arrive at. This is to also see what is the sustainable level of debt this project can bear and that kind of discussion was made and the calculation was right.

- Bhargav Buddhadev:** And lastly sir, is there an extension of the PPA also which was part of the HPC and if so, what was the rationale behind that?
- Praveer Sinha:** Rationale is simply that if the procurers are giving the companies a relief of this nature and what do they get in return and therefore one of the returns was in extension of PPA, but that is only a right to do, may not be that some forced extension, so they have a right to extent it by 10 years.
- Moderator:** Thank you. The next question is from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.
- Dhruv Muchhal:** Sir, reading from the HPC report, it seems that there has to be an approval even from the state governments, so probably a cabinet approval. Will it have to happen before the CERC in the 8 weeks effectively start once all the approvals are in place and it goes to CERC or is it all in 8-week approval process?
- Praveer Sinha:** I think the process would be that the approval will be taken by the state cabinet and only once the approval is there, then only they can go to CERC and state their point. Otherwise, it could be premature for anyone to go to CERC and say what is to be done based on the HPC report. So, each of the states will have to go to their cabinet, get approval, modify the PPA and then go before the CERC for the approval.
- Dhruv Muchhal:** That is the thing, how does it work because there are 5 states, each will have different process in terms of our timeline in terms of getting the approval from the state government. Does it become collaboratively come as a single forum and go to CERC or how does it work, because everyone does have different timeline?
- Ramesh Subramanyam:** Yes, absolutely. Each of the states will have their own process and they will take their own time in deciding how they go through the process of getting the cabinet approval or even an administrative approval through the government process and once each one of them decides and enters into the supplementary PPA, they will approve the CERC and within the 8-week period CERC will be decide on this.
- Dhruv Muchhal:** So, this HPC document says that the approval from the state government effectively has to be policy documents so it has to have the force of law, is there an act or something similar which will require a debate in the parliament or state machinery before the Discoms can approach and it can become a policy document?
- Ramesh Subramanyam:** I think each of the states will have to take a call on that. It is not for us to say what process they need to follow, but these are the things that the normal administrative functions they know how best to do it. I am sure they will do it as a normal business that they are mingling.
- Dhruv Muchhal:** And the 8 weeks then effectively starts once everything is there with CERC and it has to pass our judgement within 8 weeks, that is how it will work?
- Ramesh Subramanyam:** No. I think clock starts ticking today and the 8-week period is from today itself.

**Moderator:** We will move to the next question. That is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

**Pulkit Patni:** Sir my question was also on the procedure which Dhruv has already asked. My second question is in terms of what the court has done today is basically established that the regulator will actually consider this. Now would it now only be a question of how the calculations are done and once CERC hears everybody out or do you think there could be more challenge in terms of whether the CERC can actually hear this. So, what I am trying to understand is that it will now only be a question once everybody comes on board in terms of the state Discoms etc. of what should be the compensatory tariff or it could go back to square one with somebody questioning whether you are entitled to get a compensatory tariff in the first place?

**Ramesh Subramanyam:** I think if you go through the HPC report, there was a consultation process and in the consultation process, they have asked each of the states to mention whether a solution needs to be found or not and I think unanimous view of all the states was that they want a solution because in the long-term this is a very sustainable solution to meet their long-term power requirement, so that was clearly established. Then it was a question of getting into the basics of how do you compute the tariff and what sort of calculation needs to be done in terms of the under recovery which is there and that also through a consultation process has been agreed. So, I will say something like the lowest common factor has been agreed and once that has been agreed, it has been put in the document and based on whatever is in the document, the states have to go back to their cabinet and get the administrative approval before they modify it. So, at this stage it is a little premature to say that everyone has agreed, but yes, most of the things have been agreed and there may be some differences in some of the states but in general, there was a consensus amongst all the states.

**Moderator:** Thank you. The next question is from the line of Swarnim Maheshwari from Edelweiss Securities. Please go ahead.

**Swarnim Maheshwari:** Sir, I have two questions. Firstly, you mentioned that you will have to find ways to negotiate with lenders. Now I just wanted to ask whether this score under the two months' timeframe that you have to negotiate within two months from now?

**Praveer Sinha:** So, this lender piece is as far as the tariff is concerned, it is decided already, 20 paisa will be deducted. This is not under CERC score, whether we negotiate, how we negotiate the lenders, that is a separate issue we have to examine and move forward. I don't think this has to do anything with the Supreme Court judgement.

**Swarnim Maheshwari:** Sir, what according to you like are two or three key challenges while this Supreme Court judgement actually for CERC gets implemented in the next two months, I hope that from today so you come 1st of January and the tariff actually should be in force?

**Praveer Sinha:** We would like to believe that but let us see lot of steps needs to be taken since now and the order from CERC. So, we will work closely with all the state governments and also with CERC to see

that if this can be done ASAP and definitely in 8 weeks which is the timeline which has been prescribed by the honourable Supreme Court.

**Swarnim Maheshwari:** And sir lastly on the renewable sector, if you can throw some light on the current liquidity challenge on the renewable sector, how are you actually looking at various bids because what we understand is clearly there is some liquidity challenges on the renewable side. Banks are really not actually willing to finance over there and neither the NBFCs. Are you witnessing some of those tasks?

**Ramesh Subramanyam:** So, you know what we are not aggressively bidding like many others and not having a portfolio of assets which cannot probably pass the test of the lenders in terms of debt service coverage etc. So, as far as we are concerned, right now two things we are doing. Right now our existing assets, we are comfortable today. New assets, we are careful in our pricing and hopefully because of that many lenders will be probably willing to look at us favourably. So, therefore we don't see that as a big issue as long as we sensibly bid.

**Moderator:** Thank you. It is a follow up question from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.

**Dhruv Muchhal:** Sir the formula for HPC talks about FOB price of coal in the PPA. If you can share the FOB price of coal because that will help us calculate the future sharing of profits from the mines?

**Praveer Sinha:** You want the FOB price of coal at the coal companies?

**Dhruv Muchhal:** No, in the PPA because the formula says FOB price of coal vis-à-vis the actual price minus the FOB price of coal under the PPA and difference of that entry, so?

**Praveer Sinha:** So, this will be from time-to-time. There is a HBA price which is the benchmark at 6200 GCV which will be converted to the GCV which we are buying which is around 5300. So, this will be the derived FOB price. You are asking for what is it today is that what your question is?

**Dhruv Muchhal:** I believe the formula has two variables, one is the actual FOB price of coal and one is the FOB price of coal which you have bid under the PPA which is based on which the under recovery is calculated?

**Praveer Sinha:** Yes, so please understand that the PPA, there is a tariff denominated in dollars. That has an escalation mechanism starting from 2006 December which was the time of the bid. So, there is a formula already in place with CERC every 6 months issues a notification, by that formula you arrive at what is the tariff which you get today. So, there is FOB calculation in the baseline. It is a straightway you have to expect, use the tariff formula and notification to arrive at the current eligible tariff. Now the actual number which is the current purchase price is a market price based on HBA arrived at for your respective CV that gives you the FOB price. So, this FOB price will be converted into let us say rupees paisa and the existing PPA tariff again is in rupees paisa. Both will be compared and with the reference is going to be paid net of the mining cost and the lenders. If it is not clear, you can contact Ajay will explain.

- Dhruv Muchhal:** I will get in touch with Ajay. Sir secondly the question on the working capital at Mundra and Maithon. I was looking at the receivables at Mundra. They were consistently lower almost at the constant level for the last 3 years. So, this regulatory issue pertains to what? What is this case related to?
- Praveer Sinha:** These are basically changes, or claims of both the capital and also the one time related change in law and coal assets related change in law which are in various stages in the regulatory system. So, that is relating to that. So, as soon as the orders are coming, we will be able to bill them and claim.
- Dhruv Muchhal:** The point is we see our increase in the first half of the current year, is it something new which has come up or it was the part of the?
- Praveer Sinha:** No, as and when let us say there is a change in claims due to GST, due to taxes, due to coals, as and when it comes in and till the order is finally received, it piles up because every month you will bill that right, so it increases and at some point of time when the regulatory order comes, it gets paid.
- Dhruv Muchhal:** And sir the last question, on the interest cost, 4Q our exit interest cost on consol basis of about 900 crores and 1Q had increased about 1000 crores and it remains at about even if I reduce the 50 crores of free financing, it remains at about 960 crores which is higher than the 4Q run rate despite we receiving this Tata Communications payoff, so what is driving this increase in the interest cost?
- Praveer Sinha:** Three things, one is that we continue to at a consolidated level take the debt for the renewable capacity. Last year we would have added some 700 odd crores as fresh debt, then some of the CPs which were low-costs have been converted into long-term loans/bonds, that raises a little bit and working capital increase what you just saw in CGPL and Maithon, the working capital increases have also led to gross debt increase as well as the interest cost in absolute terms.
- Dhruv Muchhal:** So, these 960 crores which we have is just for the financing cost should be the new baseline assuming and it will change based on how your working capital and other things will change, so this does not include any other one-off?
- Praveer Sinha:** Yes, does not include any other one-off.
- Moderator:** Thank you. The next question is from the line of Subramanyam Yadav from Subhkam Ventures. Please go ahead.
- Subramanyam Yadav:** Sir, my question pertains to CGPL verdict. Sir is it fair to understand that whatever the verdict CERC comes up with whatever the working, would the Supreme Court accept that thing or again the Supreme Court will start hearing the Prayags or these consumer forum again?
- Praveer Sinha:** Please understand this is the legal and regulatory process. The normal process of CERC, APTEL and if you don't agree with APTEL, you go to Supreme Court. Nobody can stop anyone from

conducting anything in this process. So, while there is a fair bit of clarity now on the fact that the Supreme Court at least has cleared the deck for the fact that their earlier order was not stopping this or it stands in the way of amending the PPA, but it does not rule out any other, this would anybody can bring in this country. So, therefore you have to wait and see and hope that it does not go to Supreme Court. If all parties agree, then may not.

**Subramanyam Yadav:** The final CERC order would be the final then in that case?

**Praveer Sinha:** You can't say that. See something in CERC could be conducted in APTEL also.

**Moderator:** Thank you. The next question is from the line of Ashish Shah from Goldman Sachs. Please go ahead.

**Ashish Shah:** Sir, on Mundra after this refinancing, we have around 8000 crores of debt at the SPV level plus is it fair to say that the parent debts to Mundra right now, whether it is perpetual debt or we may consider in whatever form, it is now around 7500 because we had around 5700 and now 2000 again refinanced?

**Praveer Sinha:** See the net effect of the refinance is that while CGPL debt may have come down by further 2000 crores because Tata power infuse, but at the parent level to extent the 2000 crores of noncore asset that is the only reduction which is of course offset by the ones we discussed just now the TPREL and the working capital and as far as perpetual is concerned, right now they are treated like equity in terms of nature and only if the project is able to service it, etc., it will come back. Otherwise, right now it stays where it is.

**Ashish Shah:** And this 2000 crores is also perpetual debt where we have reduced Mundra or is it in the formal debt given by its equity? So, considering that we have so far infused around 7500 crores in Mundra and based on the MPC recommendation if tariff has to go down by 20 paisa, the debt has to further go down by 4000 crores. So, would that mean that there is a potential of further 4000 crores infusion by the parent and hence that is what will make the plant sustainable or will come to a sustainable level of debt. So, we already infused around 7500 crores and debt should reduce by further 4000 crores for the plant to become sustainable?

**Praveer Sinha:** The way to look at it is the net tariff increase after this two deductions of mining and debt, what the number that comes to and we still believe that Mundra losses still of course continue as you know we are not being fully compensated, the losses will continue. Therefore, interest serviceability will be an issue. Now just like today we are carrying on by bumping money to service the debt or we may have to do it for some extent or infuse equally once fallen and make it to the level of sustainable debt, but it has nothing to do really with the 20 paisa etc. which has been talked about. This is two separate things we have to deal with.

**Ashish Shah:** Sir, then what would be the ideal sustainable debt at this plant level?

**Praveer Sinha:** Then you have to tell me what is the coal price level. I think this is a moving target, right because Mundra is completely driven by court prices. If the price is \$50, it is a different infusion and if

it is \$70, it is a different debt level it can sustain. So, it really depends on what level you are talking about.

**Ashish Shah:** At the current level if I may ask at the current coal price level, what could be the sustainable debt?

**Praveer Sinha:** It should be very low. We can share with you some details. Mumbai is on a ballpark number because we will have to also see what is the level of equity that we will pump in there. We will ultimately see, we don't look at by the way CGPL right now as the independent sustainable entity because it is by design not going to meet its full data obligations at the current even if the HPC recommendations are fully passed. So, ultimately it is in the consolidated hands that whether to have a reduced interest at CGPL level or at the consolidated level. So, frankly it is one basket. So, talking about CGPL independently on the sustainable debt does not make sense to me being a wholly-owned subsidiary.

**Ashish Shah:** Fair enough, sir then the HPC recommendation would largely what it does is that it reduces the EBITDA to more or less zero, make sure that we get at least the variable cost pass through but then debt still we have to find a solution on the debt side?

**Praveer Sinha:** No, if it comes, we will be more, EBITDA will be there at two service part of debt, so it is not just as going to be zero or something, it will be much more.

**Ashish Shah:** Sir one last question on Prayagraj, we understand per 75% of stake, we are bidding at around 6 to 7 crores, is there any other tax liability that we would be paying over and above the 6000 crores for this asset?

**Praveer Sinha:** Not to our knowledge, no.

**Moderator:** Thank you. We will take the last question from the line of Shrinidhi Karlekar from HSBC Securities. Please go ahead.

**Shrinidhi Karlekar:** Sir, this one is again on the today's Supreme Court order on Mundra. Sir as you explained the first stage is that the states cabinets have to approve the change in PPA, now that one of the five beneficiary states is Rajasthan and that state is going for election. In such a context, do you believe that it can happen in 8 weeks?

**Praveer Sinha:** States may go for election, but there is a government which functions and I am sure the bureaucracy over there knows that what are urgent issues and that needs to be taken care and their wisdom takes a decision on this. So, I think let us wait for them to respond rather than at this stage saying what they will do or not do.

**Shrinidhi Karlekar:** Sir, just technically whether it is possible, that is the only thing I want to understand?

**Praveer Sinha:** The government is still functioning over there till the day our new government comes in place, so they are definitely very much there.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments. Thank you and over to you sir.

**Praveer Sinha:** Thank you very much for all the questions and in case you have any more questions, please don't hesitate to contact our colleagues Ajay and I am sure he will be in a position to respond to all your queries. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Tata Power Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.