"The Tata Power Q3 FY21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Tata Power Q3 FY '21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. Today, we have Dr. Praveer Sinha, CEO and Managing Director, Tata Power; and Mr. Ramesh Subramanyam, CFO, Tata Power, with us on the call.

I now hand the conference over to Dr. Praveer Sinha from Tata Power. Thank you, and over to you, Dr. Sinha.

Praveer Sinha: Thank you. Good evening everyone and welcome to the earnings call of Tata Power for Q3 FY 21 results. I have with me Mr. Ramesh Subramanyam – CFO; Mr. Anand Agarwal – Financial Controller; Mr. Kasturi – Chief of Investor Relations.

We would like to, first of all, thank all of you for the continued support during the turbulent times and helping the Company with valuable feedback. We did announce our growth strategy that focused upon improvement in returns for stakeholders. As we had laid out in our last Analyst Meet, the Company has continued strongly on executing the various strategic plans and in this quarter, we delivered on many of these action plans. Since our last results call, we have had several events which reinforces our ability to realize the Company's strategy. Tata Power was awarded 2 additional distribution licenses in Odisha- SOUTHCO and WESCO, which we took over from 1st January 2021. Since then, we have also been awarded the Letter of Intent for the last distribution license in Odisha-NESCO, and we are working on its takeover process. With these licenses, Tata Power has grown from a consumer base of 2.7 million to about 12 million in less than a year's time. The proposed budget provision to allow multiple discoms in a circle is a welcome move which will allow and give the opportunity for the Company to expand its state-of-the-art distribution processes and practices to other regions and facilitate transition to healthy distribution operations. During this quarter, the completion of defense sale transaction took place at a value of ₹ 1,076 crores, and Tata Power has received cash of ₹ 539 crores net of the debt of SED.

Similarly, our solar EPC order book continued to grow and at the end of Q3 was around ₹ 8,700 crores. In addition, we have won orders worth ₹ 1,869 crores in January itself. Net of the capacity that has not been approved by GERC, our order book as of date is close to ₹ 10,000 crores. Majority of the work for the 300 MW expansion of manufacturing lines at Bangalore has been completed and we expect to open this plant by end of this month. Our manufacturing capacity for both cell and modules will double to nearly 600 MW each.

Our renewable development portfolio won a bid of 110 MW solar in January. With another 370 MW of project awaiting letter of award, our total renewable portfolio is around 4.4 GW.

In CGPL, in this quarter, we completed the repayment of ₹ 4,150 crores of term loans completing the financial restructuring of CGPL. This has helped us in reducing the finance cost as well as dependence on the parent company.

With the steady performance across all businesses, we have started seeing the impact of these strategic plans with reduction in Mundra losses over a period of time and significant reduction in interest cost backed by several deleveraging measures getting realized this year.

We have seen a sharp recovery in demand with the sales in our distribution circles at Delhi, Ajmer and Mumbai, and we are almost close to the pre-COVID levels. Collections have improved with distribution overdues reducing over a period of time, with our collections becoming nearly 100% not only in our existing distribution license areas, but also in Odisha.

CGPL under-recovery has reduced sharply with falling coal prices, better coal sourcing and logistics management. The fuel FOB under-recovery has reduced from 40 Paisa in Q3 FY 20 to only 32 Paisa in this quarter. CGPL and coal-related businesses generated a combined profit of ₹ 16 crore despite the fall in FOB prices of Coal Companies, coupled with one off tax penalty of ₹ 31 crores in KPC and write-off of the project expenditure relating to the Russian Coal Mines of ₹ 29 crores. We have now two back-to-back quarters of profit in this cluster. With the proposed merger with Tata Power, CGPL issues will be fully contained and it will help us to make all our existing businesses self-sustainable.

We continue to improve the availability across our renewable assets with several operational initiatives, and this is reflected in steady performance across the assets. Our overdues from discoms have consistently come down with our persistent efforts and thanks to the efforts of Government of India for the large ₹ 1.2 lakh crore payment that has been released to various discoms.

The increased solar EPC order book has led to Tata Power Solar total revenue in the quarter increasing from ₹ 495 crores last year to ₹923 crores in this quarter. However, the execution in this quarter was little less than planned project activities at site and this is expected to be ramped up in the coming quarters. The current order book is likely to be executed in the next 12 to 18 months.

With all these improvements, we have clocked a 33% growth in PAT before exceptional items to ₹ 346 crores compared to PAT of ₹ 260 crores last year. The company has now clocked an increase of around 10% Reported Profit on year-on-year basis for the last 5 quarters.

The Consolidated Revenue stood at ₹ 7,740 crores, compared to ₹ 7,171 crores in the previous year, mainly driven by TPCODL acquisition and increased order execution in large-scale EPC, rooftop and solar pump business.

The consolidated EBITDA has stayed steady with ₹ 1,997 crores generated in this quarter, up by 1% compared to last year driven by lower under-recovery of CGPL and a higher Solar EPC business. Despite lower coal profits, Underlying Business EBITDA remained steady at around ₹ 2,149 crores in this quarter.

Moving on to the balance sheet and the progress on deleveraging, we completed the defense sale transaction in this quarter. Using the proceeds from the deleveraging actions and the preferential equity issue, net external debt has been reduced by more than ₹ 7,500 crores over the last 1 year to ₹ 36,000 crore, which has helped us to secure rating upgrade by CRISIL from AA-/Positive to AA/Stable and by ICRA from AA-/Stable to AA-/Positive. Using the better credit ratings and lower interest rate regime, the company has refinanced few loans at much lower rates, such as the recent issuance of ₹ 1,000 crore 3 years NCD at 6% interest rate. This revised debt profile is helping us to reduce our average interest cost to around 7.8% in this quarter compared to 8.6% last year. Our debt-to-equity ratio has sharply reduced to 1.49 from 2.12 times last year. Similarly, Net Debt to underlying EBITDA has improved to 4.11 times in this quarter.

Over the last 6 months, we have been in discussions on the InvIT transaction, and it has progressed very well, and we are close to finalization of the binding agreement. We are very happy with the progress achieved till date on this transaction given the size and the complexity of the portfolio and we expect to approach the Board for approval before the end of this month.

In Prayagraj, we continued to see very strong operational performance, achieving a 92% availability in this quarter. Tata Power is also providing the O&M services, which has led to the improvement in the Prayagraj plant operations.

We have also continued to see meaningful progress in Odisha Discom (TPCODL) which operates in the erstwhile CESU area, and we have seen significant improvement in operational and financial parameters to reach our targeted trajectories. We have been able to reduce the trippings at 33 KV level by more than 70% while replacing almost 1.2 lakh meters till December end. At the same time, we are working on improving the customer experience with customer care centers, call centers and better customer relationship management solutions and also starting many initiatives to reduce the customer complaints and easing out payments.

In our consumer-oriented business, we won contract to provide charging infrastructure for e-buses in Ahmedabad and BEST buses in Mumbai. Our solar pump business did installation of nearly 2,750 pumps this quarter recording its largest quarterly revenue. Our rooftop solar business continues to emerge from the COVID-19 induced slowdown, and we have seen an uptick in the orders. And unbilled order book for rooftop solar as of end December stands at nearly ₹ 600 crores.

Our microgrid business has also seen huge progress with our 100th microgrid commissioned in UP. We have already installed 128 microgrids and another 62 are under advanced stage of installation. In this quarter, we also commissioned 2 biogas plants and thereby taking efforts to make these microgrids 100% on renewable power.

The coming quarters will be action-packed for the company, and we look forward for your continued support.

My colleague and I am available now to take the questions. I now hand over the call to Faizan for question and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Swarnim Maheshwari from Edelweiss Securities. Please go ahead.

Swarnim Maheshwari: I had couple of questions, Sir. The first question is on your CESU business. If you can tell us what was the AT&C loss at the end of Q3? And also with respect to CESU, what were the losses at the PAT level, which is actually implied in your consolidated numbers?

Ramesh Subramanyam: For CESU, the PAT numbers included in the consolidated number is ₹ 34 crores for the quarter. What was your other question? AT&C loss?

Swarnim Maheshwari: Sir, AT&C loss.

Ramesh Subramanyam: YTD, we exited with 33.9%.

Swarnim Maheshwari: Sir, if I recollect, at the end of Q2, the AT&C loss was at about 27.5% or 28-odd %. So, is it fair to say that in Q3, the AT&C loss has gone up?

Ramesh Subramanyam: No. Q2 and Q1 were higher than 33.9%. In fact, we are on a slope from Q2 where we had achieved 38.7% at the end of the second quarter. So, when we exited with 33.9% this quarter. Actual AT&C is 24% for this quarter performance, so to speak, to bring down the cumulative to 33.9%. So, I don't know where was the gap in your numbers. You read some different number, but maybe off-line, we could help you with that.

Swarnim Maheshwari: Sir, second thing is, we have mentioned that there is this Forex loss in the solar business TPSSL. Now what is this loss pertaining to? Is there some sort of foreign loan over there? What is it?

Ramesh Subramanyam: No. This is for import of modules for which we hedge the component. This is market to market on this component.

Swarnim Maheshwari: So, what is the quantum?

Ramesh Subramanyam: Quantum of the loss is about 18 crores.

Swarnim Maheshwari: It's about 18 crores during the quarter, okay.

Ramesh Subramanyam: It includes period beyond the quarter because depending on the valuation at the end of the MTM valuation at the end of the quarter, 18 crores is the impact. Some of it could recover also.

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

Mohit Kumar: Sir, a few questions. The first is on the expected time line for announcement on the InvIT. When do you expect to close the InvIT? And in MW terms, how much asset we are looking to hive off and the EBITDA of the assets and the life of the asset left? That is the first question.

Ramesh Subramanyam: For the transaction closure, there is time because there are a lot of steps. There are shareholder approvals, regulatory approvals, etc. The first thing, of course, is to have the basic structure agreed upon, so which is what just now Mr. Sinha mentioned, we are close to finalizing that, and we hope to announce that soon. And thereafter, of course, it will go through the regulatory approval process and shareholder approval process. And as far as your MW answer is concerned, we expect to put about 3.4 GW in this whole mechanism. So, our intent is to put all of our renewable assets, barring some which have to stay back due to some reasons. But otherwise, all the renewable assets will be transferred to the InvIT.

Mohit Kumar: And out of which 3.4 GW, how much is operational at this point of time, Sir, 2.7 GW, am I right?

Management: Yes.

Mohit Kumar: Understood, sir. Secondly, on the solar cells and modules business. We have commissioned a new capacity. So, what are your aspirations in terms of solar cell and module manufacturing from medium-term point of view? And the order book, which you have is right now in the Tata Power Solar, is it safe to assume that this entire order would be executed in the next couple of years?

Ramesh Subramanyam: Yes, because these contracts are all generally 18 months to 24 months duration. And the solar order book, they will be executed in the next 1 to 2 years.

Mohit Kumar: And sir, what is your aspiration in terms of solar cell and module manufacturing? Do we have any plans to go to ingot, wafer? And do you want to increase this capacity? Is there something which…

Ramesh Subramanyam: So, at present, we are also looking at how the appropriate environment for the solar manufacturing will shape up. And we are also looking forward to the support from the government on the various manufacturing-related incentives. And I think once an appropriate regime is there, then we would certainly look at that. Right now, there is no immediate plan in hand to move in that direction.

Mohit Kumar: Last question, sir. How are you pursuing Mundra tariff resolution given that the cost of the coal has again moved up and the CERC is opened for business?

Ramesh Subramanyam: Well, right now, CERC is not in the picture, as you know. First, it has to be approved by the five states. There are some terms and conditions on which it is stuck, and we expect unless those are resolved, it will be very difficult. It doesn't make sense for the Company to agree to the current proposed T&C. So, we will take this forward as and when those conditions are resolved.

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

Puneet Gulati: On the solar EPC business side, should one worry about the margins given that we've seen volatility in the module prices and all? Is that something that we were impacted with as well?

Ramesh Subramanyam: Well, when you are in this business, volatility is part of the game. So, we do have plans how we normally even out these things because these keep happening. This is not new. Of course, after a long time, prices have begun to look up, but there are also expectations that this is a short-lived phenomenon. But suffice to say that as a business, we will of course use all our strategy to ensure that we time our entire management of the contracts in a way that we suffer the least.

Praveer Sinha: And also, many of the contracts are firm prices, and it is hedged. Also, the currency hedging is done. So, to that extent, we do get insulated from these market forces.

Puneet Gulati: But I presume most of your contracts could have a module element also into it. And would there be a way to go back to the customer and ask for a commensurate higher price? Or is that not an option?

Praveer Sinha: No. You cannot go back to the customer, but what one can do and what we normally do is also tie-up on back-to-back basis with suppliers from China and other locations. It's not only that everything comes from China, we also source it from some other countries also. And to a large extent, we are insulated from these market forces.

Puneet Gulati: So you would have tied up mostly then, one needn't worry about that

Praveer Sinha: Yes. Absolutely right.

Puneet Gulati: My second question is on CESU. What kind of trajectory should we look at? You are already down to 33.9%. What do you think would you be in FY '22 and '23? How should one think about this trajectory?

Ramesh Subramanyam: You've seen the bid trajectory, which is given. I think it has been shared with you in the presentation. The whole idea is that we should be better than that. And that is what we are currently planning to do, and we're on track.

Praveer Sinha: Yes. And if you see, we started from a very high number. Because of COVID during the period April & May, the AT&C loss went up to nearly 41% -42%, which we have now brought it down. And going forward, we have shared with you what is the trajectory. We are definitely expecting that it will be much better than what is the given trajectory.

Puneet Gulati: My last question, the government has talked about an alternate discom. Is that something that you see could happen in immediate future? Or would there be a need for regulatory changes to take place?

Praveer Sinha: So, these types of changes, first of all, it has to be passed in the parliament. So, the bill has been introduced, and we do not know how much time it will take, whether it will go to the select committee or it will get passed in the parliament itself. Secondly, the rules and regulations for doing all this has to be clearly spelt out both by the Central government and also the state regulator, but this will happen maybe in a year or 2 years' time. And this is a great opportunity for us because of the unique experience that we have in carrying out distribution services and customer service that we provide to our customers. So, I think it's a good opportunity going forward, and we will try to extract the maximum benefit when it opens up.

Puneet Gulati: And the states would also have to separately agree other than just Center. Is the understanding correct?

Praveer Sinha: Yes. It's a consultative process. Distribution of energy is a concurrent subject, and states have to be onboard as also the regulators.

Moderator: Thank you. The next question is from the line of Anupam Goswami from B&K Securities. Please go ahead.

Anupam Goswami: Sir, my first question is on CESU. We posted a profit of ₹ 34 crores. Sir, what led to this profit? I mean, to understand, have we breakeven already?

Ramesh Subramanyam: No. On the base equity, there is a ROE, that is point number one. Point number two is there are adjustments, on a cumulative basis on the pending recoveries which have been getting done. There is an incentive on recovery of old debt and also, the recognition of the provisions for debtors, those are adjusted at every quarter end. So, this includes some amount of progress belonging to the past 6 months also, apart from the regulated equity on the invested equity.

Anupam Goswami: And sir, my next question is on your Tata Power Solar. We have achieved a higher revenue, but our PAT has gone down. That is what you mentioned about MTM losses of 18 crores, is that the reason?

Ramesh Subramanyam: Yes. That is correct.

Praveer Sinha: Also because part of the execution could happen in this quarter, the balance execution happened in the last quarter when the total PAT will be booked.

Anupam Goswami: And sir, what is our ex-EPC revenue in Tata Power Solar?

Management: What is it? What did you ask? Revenue of?

Anupam Goswami: Ex-EPC.

Ramesh Subramanyam: So in this quarter, the ₹ 900 crores was the total turnover for the Solar Company, of which EPC is ₹ 649 crores.

Anupam Goswami: Sir, my last question is on the Tata Power Standalone. Sir, I see we have increased our short-term debt. What is the reason for increase in debt?

Ramesh Subramanyam: Now we are tactically planning to eventually come with a proper long-term versus short-term combination. Right now, due to the fact that in the last 4 - 5 months, we raised capital, we sold assets, and now we have to plan to refinance and repay some of the debt. Therefore, in the coming months, you will see that a lot of these short-term debt will get slowly phased out into long-term debt. This has been something which is on our radar for the last 6 months. Even if you compare in March, the amount of short-term debt we carried versus what we carried in December, there is a marked decrease of about ₹ 3,000 crores.

Moderator: Thank you. The next question is from the line of Kirthi Jain from Sundaram Mutual Fund. Please go ahead.

Kirthi Jain: Sir, my first question is with regard to the Gujarat Solar Policy which has come. How has been initial response, if you've got any, on that front? And then with regard to charging installations, like in next 12 months to 15 months, what is the charging installations are we planning to achieve in the next 12 to 15 months' time, sir?

Praveer Sinha: So based on the Gujarat policy, whereby they have said that they will sign up PPA with individual power-generating individuals, there has been a very good response from what we understand from Gujarat Government. They've got nearly 5,000 applications of people who are interested. They are right now scrutinizing those applications. Many of the people who have applied are in touch with us because they want us to carry out the EPC work with them and also the O&M activities. So, we are looking at a great opportunity over there to support the individual investors who would like to take up this type of generation program in Gujarat.

Kirthi Jain: Sir, what about captive consumers, sir, like large industrial houses, chemical factories or the ceramic units? Are they also coming in to sign the PPA's?

Praveer Sinha: That is part of our business risk, whereby we are tying up with them either on your EPC basis or group captive basis. So again, there has been very good orders that we have received in the last quarter, and we are seeing huge amount of traction in these types of industrial and commercial establishments who would like to go for rooftop solar solutions. And we are also now coming up with large initiatives and publicity campaign to reach out to many more consumers in different parts of the country to see that how the benefit of self-generation through rooftop can be provided to these consumers, and their electricity bill can come down to that extent.

Kirthi Jain: Sir, then on charging station installation, sir, what is the number we are targeting over the next 12 to 15 months?

Praveer Sinha: Right now, we have nearly 300 public charging stations that we have set up, and we expect to complete this year with nearly 500 charging stations. And these are fast-charging stations in public locations. We also have done nearly 2,000 home chargers. And going forward, these numbers, I think, will be shared with you. There is huge growth potential, and we will be playing a very important and critical role in providing these infrastructure throughout the country.

Kirthi Jain: Sir, last question from my side. Sir, yesterday, one of the news I saw that the AP bidding happened, and at ₹ 2.48 also, we didn't win any project in the AP bidding. And second thing, NTPC is able to take our service and is able to supply at ₹ 2 whereas we are not participating in those solar tender. Any particular reason, sir, in those 2 aspects we didn't do, sir?

Praveer Sinha: Yes. So, first of all, about the AP, we found that the AP bidding is being done without consent from the regulator. And also, the agency, which is doing the bidding is not authorized to carry out this sort of biddings. It has to be a distribution company, which has to do that. So that's why we felt that the whole process is not very transparently done, and we would not be in a position to bid in that. Secondly, as far as the competitive bidding came, we normally bid in all projects, and you have seen in many of the recent projects that we have bid and we have competitively won those projects. And we keep on assessing the market. And based on the opportunity and what sort of return realization that we expect, we normally bid and we win in those contracts.

Kirthi Jain: Sir, in terms of the solar pumps, how has been the response? Or any numbers can you share on solar pump side, sir?

Praveer Sinha: So, this year, we shared with you that in last quarter, we implemented some 2,750 pumps, and we have a very good order book of solar pumps. This year, we have 7,500 pumps of pipeline and we are expecting that in future, because of the huge push that Government of India is giving under the Kusum program, we'll be doing more number of solar pumps going forward. That's one of our growth businesses apart from Rooftop Solar.

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

Rahul Modi: Sir, just wanted to take your view on the bidding landscape in the solar project, and we've seen a lot of hybrid projects are also coming up. So sir, what are the kind of bids that you are looking at in the next opportunities that are coming across on an annual basis realistically over the next couple of years?

Praveer Sinha: See now what has happened is that in last 1 year because of COVID, not many projects have come up. And as you know that Government of India has a plan that by December 2022, 1,75,000 MW of renewables will come. We are still at 90,000 MW. So, there is a huge demand to catch up in next 1.5 years or little less than 2 years to meet the target of 1,75,000 MW. We are seeing that many of the state governments as well as SECI and NTPC have plans to not only come up with just pure solar or pure wind project, but also hybrid projects where they will come along with storage or will also come with a combination of thermal projects. So, we are looking at big opportunity. The second thing is that, again, the RPO obligation for states has still not been imposed. The new amendment to the Electricity Act is talking about enforcing the RPO obligation. We are still at about 10% of our total energy coming from renewable. If we have to become 20%, then the capacity addition has to be much larger than what it is today. So, considering all these things, we do expect that there will be a lot of traction in coming months on not only pure renewable, but also hybrid projects.

Rahul Modi: Sir, just wanted your view on one thing. Like, recently, Gujarat regulator asked discom to consider retendering. And it's a very peculiar situation that every 2 months bids are being called and prices are at least 20 Paise lower than the previous bid. And ultimately, we are with the 20,000 MW of unsigned PPAs by various agencies. And then we are at a ₹ 2 tariff where, obviously, the participation is thin. So sir, what is your view as to how will this develop, get resolved? Because at some price someone has to sign. So, what's your view on this?

Praveer Sinha: See, typically, these types of things do not happen. These are aberrations which happen. And this is for the first time that Gujarat regulator, instead of adopting the tariff, has asked them to rebid again. As the proposed amendment in the Electricity Act says that under 63, if there is a bidding done, the regulator has to adopt that tariff and it cannot reject whatever tariff has been determined through a bidding process. So, I think both through the regulatory system as well as the amendment to the Act will push the regulators to comply with these normal bidding norms rather than making knee jerk decisions of modifying the bidding process.

Rahul Modi: Sir, now in terms of discoms, any discussions that you're having with the policymakers and the states? Any particular states who are looking to privatize discoms over the next 12 to 18 months, at least initiate any process in that regard?

Praveer Sinha: We typically are in constant touch with various State Governments and we share with them the opportunity to reduce losses, provide better reliability, better service to their consumers. So, this is an ongoing process on a regular basis. And these decisions are taken by the Government based on their desire to implement the reform process. The timing of it is determined by when they have elections and when the Government would be in a position to take a hard decision. So, this is something that on a constant basis we connect with all the State Governments.

Rahul Modi: Sir, and no specific states which are currently being talked about or there are but it's fluid?

Praveer Sinha: It's very speculative at this stage. It's very difficult, it is at different levels and different stages of discussions. So very difficult to say at this stage.

Rahul Modi: Sir, my last question is with regard to the revenue model of the EV charging ecosystem that we are developing, sir, how exactly does the entire scheme works in terms of our revenue model? Is it just a power sale? Or how does it work?

Ramesh Subramanyam: No, it's a combination of power sale, services and network. So, there we charge for the network. Therefore, it's a combination of all 3, and plus, there will be some value-added services thrown in. So, at this point, I think, we will not be able to share the full model because some of it is evolving. We are doing a lot of seeding work in the market. And as we go along, lot of refinements will happen in this model.

Rahul Modi: Sir, will this be a licensed business? Obviously, if the delicensing is passed, then it's passed. But typically, will it be a licensed?

Ramesh Subramanyam: No, there is no such sign. I think the government is doing all to encourage more and more penetration. And since many of the private sector players may not be clear about how it will move ahead, they are pushing a lot of government efforts also into this. But overall, to the best of our knowledge, it's all going to be open market because ultimately it's all about penetration. So, everybody has to chip in there.

Moderator: Thank you. The next question is from the line of Aniket Mittal from Motilal Oswal. Please go ahead.

Aniket Mittal: Sir, few questions on the EPC front. Firstly, if I look at the EPC order book you provided on Slide No. 5 and if I adjust it for the in-house projects, there is a very large concentration that you have towards NTPC projects. So, I just wanted a sense from a broader EPC market perspective, is there any reason for this? I mean, are the other RE developers sort of doing the EPC work in-house?

Ramesh Subramanyam: Yes. I think many of them are doing in-house.

Aniket Mittal: Sir, just sort of sustainability perspective, would it be fair to assume that the sustainability of your order book would be dependent on these PSU able to win awards and then contract for EPC work?

Ramesh Subramanyam: Not necessarily because there would be new and newer players and many players would also change their preference to do it through outside contractors depending on the size, scale and their ability to execute. So therefore, we expect this market to continuously evolve. And as new players come in and new investors come in, they may like to actually go with established EPC players who would provide them a more assured EPC service. So, this is going to be a growing market. It is not only dependent on PSUs.

Aniket Mittal: And just one question on the solar rooftop front. Now I understand this is a very big segment for us where we're expecting strong growth to come in. But with the recent mandate for net metering restrictions, one, how do you see the market sort of going forward? And what sort of installations are you looking at from an FY 22 base?

Praveer Sinha: See, the net metering concept was brought in when the cost of rooftop solar was ₹ 14 – ₹ 15. And at that time, to induce people to go for rooftop solar, the net metering was brought in. Today, the cost of rooftop solar has come down drastically in the ₹ 4 range. So, for consumers, whether they are industrial or commercial or even domestic, the arbitrage for generating on their own is much better. And they typically are now generating enough to meet their captive requirement and not for the purpose of giving it to the grid and getting the net metering benefit. So, I think conceptually, the whole structure has changed. But otherwise, there is a huge demand that we see in the market because at the end of the day, today, industrial and commercial consumers end up paying about ₹ 9 – ₹ 10. But if they do captive generation, it is about ₹ 4 to ₹ 5, and they will tremendously benefit if they go for rooftops solar.

Aniket Mittal: Sir, but just to get an idea from the next couple of years, because the problem is, what's happened is based on the recent guidelines they've said that net metering will only be allowed for loads up to 10 KW right? And I think there's a reluctancy for consumers to actually go on a gross metering basis. So, from a next, let's say, 2-year perspective, what sort of installations do we see on the solar rooftop front?

Praveer Sinha: There will be a lot of demand. The gross is something which has happened globally. Everywhere when there was a large penetration of rooftop solar, the gross metering was taken up. So, this is something which will transition over here. The net metering will have a sunset and we need to see that when exactly. Yes, but it will push up the prices a little bit.

Ramesh Subramanyam: Markets will readjust.

Aniket Mittal: Sir, maybe just to get a sense on the numbers over here. Could you tell me, on a 9-month basis, what's the revenue and EBITDA from the solar rooftop segment?

Ramesh Subramanyam: 9-month solar rooftop, we made revenue of about ₹ 300 crores.

Aniket Mittal: And what would be the EBITDA?

Ramesh Subramanyam: At present, we are not disclosing rooftop EBITDA. Some of the new businesses, which are nascent, we are not disclosing EBITDA because they are in very early stages. But I think at appropriate time, we will start disclosing. I think it will be better we start it systematically before we selectively answer this.

Aniket Mittal: And maybe just one last question on the rooftop front. Just wanted to understand the model over here. So, let's say, the installations that we do, is it largely a CAPEX model or an Opex model?

Ramesh Subramanyam: They are both. Depending on what the consumer wants.

Aniket Mittal: And could you provide just some sort of a visibility, let's say, from an FY '22 perspective, what would be the total installations that you're looking at for Tata Power?

Ramesh Subramanyam: So, we won't be able to share that right now. But at an appropriate time should we decide, we will be sharing it.

Aniket Mittal: Sir, my next question is on the CESU front. Could you tell me what's the overall cash at CESU?

Ramesh Subramanyam: ₹ 1,200 crores.

Aniket Mittal: Sir, if I look at Slide No. 34 of your PPT, the overall debt in CESU is ₹ 90 crores, right? And the overall cash right now is ₹ 1,200 crores. So, is it right for me to say that the takeover of CESU has led to a cash infusion of ₹ 1,100 crores?

Ramesh Subramanyam: I mean, yes, it's only a very accounting way of looking at it because at the end of the day this is restricted cash. This cannot be just really used.

Aniket Mittal: Sir, but your net debt amount would include the ₹ 1,100 crores cash of CESU, right?

Ramesh Subramanyam: Yes.

Aniket Mittal: And sir, on this ₹ 1,100 crores cash of CESU, you would also be earning other income?

Ramesh Subramanyam: Yes. Then it is deployed, yes, but it will be safe haven securities, so it will not be a very high level of income, etc.

Aniket Mittal: So out of the ₹ 34 crores PAT that you've done on 3Q, how much of that is other income? Because on a 1,100 crore number, even if I assume, let's say, 5% other income, I think you would be earning on the ₹ 34 crore number somewhere between ₹ 12 crores to 15 crores of other income itself?

Ramesh Subramanyam: This is a pass-through, so it won't accrue to the bottom line.

Aniket Mittal: And sir, one question on the Delhi front. I think there is some impact of order that you've mentioned in your PPT. So, what is that?

Ramesh Subramanyam: That is about ₹ 34 crores. That is coming out of a tariff order.

Aniket Mittal: And sir, just one last question maybe on the CESU front. I think the 3Q numbers include the takeover of CESU, right? So, within 4Q, we've also taken over WESCO as well as SOUTHCO, right?

Management: Yes.

Aniket Mittal: And we'd also be taking over NESCO. So, what would be the cash infusion that would come in there? So sir, let's say, CESU has around ₹ 1,100 crores, so net debt has actually benefited by around ₹ 1,100 crores because of CESU coming in. So, would it be fair to assume that there would be another somewhere between ₹ 2,000 crores to ₹ 3,000 crores of cash infusion in a way that will happen because of takeovers of these 3 entities?

Ramesh Subramanyam: The third discoms is yet to be really contracted, but the 2 discoms, we are yet to get the final balance sheet, etc. At present what we have is only CESU. And it may or may not have that level of balances also. So, there's a process going on, on the handing over. Only when it is complete, we would be able to know what exactly the cash balance is there.

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

Sumit Kishore: My first question is at what stage of approval is the amalgamation of Mundra into the Standalone entity?

Ramesh Subramanyam: So right now in the next 2 weeks, we are going to have the closure of the shareholders' approval, which is the NCLT called meeting. And following that, we will have to file the results of that shareholder results, and then we will wait for the approval. So, it's very advanced stages of getting closed.

Sumit Kishore: So, one can assume it will be done in this financial year?

Ramesh Subramanyam: Yes. Even if it spills over, you know that it is effective April 20. So, the effect will be there before we close the accounts this year.

Sumit Kishore: And second question is, in your Standalone accounts in the presentation, I noticed the other income of ₹ 700 crores. What is driving that other income?

Ramesh Subramanyam: This is dividend from subsidiaries, overseas subsidiaries, and in the consol it gets eliminated.

Sumit Kishore: Which overseas subsidiary is giving such a big dividend?

Ramesh Subramanyam: This is our shipping subsidiary, post the sale of our shipping assets.

Sumit Kishore: And the third question is, of the ₹ 19,480 crore debt at Tata Power Standalone, what is the updated figure on the debt attributable to CGPL and the debt attributable to the acquisition of Welspun Renewable, Walwhan Renewable?

Ramesh Subramanyam: I don't know whether this is still relevant to isolate, but you know it is ₹ 3,900 crores for the Welspun acquisition and about ₹ 8,000 crores can be attributable to CGPL because, originally, CGPL had about ₹ 13,000-odd crores, which has come down to ₹ 4,000 crores.

Sumit Kishore: And after I take these 2 out, the debt should largely be attributable to the license area?

Ramesh Subramanyam: Yes. And of course, supporting investments that are made, for example, Odisha investments, some amounts will be there. So yes, broadly, that's correct.

Sumit Kishore: And if you could outline what is now the guidance on the annual CAPEX over a 1-year time frame, say, maybe in FY 22?

Ramesh Subramanyam: On the renewable assets we have currently, let's say, about 1 GW. So, about ₹ 4,000 crores to ₹ 5,000 crores of CAPEX in the pipeline on renewables. But apart from that, the regulated businesses normally are around ₹ 1,000 crores annually. We do have a potentially higher number in transmission in Mumbai, but that will be known in maybe a month or so, we'll be able to share maybe in the next quarter call, we'll be able to share the exact outlay for next year. But that's broadly the CAPEX plan. And the new businesses have very little CAPEX, a couple of hundred crores at best. And yes, we do have an FGD program close to ₹ 4,000 crores across our thermal units. So that will be staggered in next year and the year thereafter.

Sumit Kishore: And finally, as a follow-up to one of the earlier questions, you mentioned ₹ 3 billion of revenue contribution in 9 months of rooftop solar. If I were to look at rooftop solar plus microgrids plus EV charging and home automation, then this total would be approximately how much in revenue terms?

Ramesh Subramanyam: Maybe roughly ₹ 500 crores YTD would be between rooftop and other products. And for the quarter, it would be about ₹ 250 crores.

Sumit Kishore: And so how do we evaluate profitability in the customer-oriented businesses? I know you're not going to give me a figure, but how do we think about profitability?

Ramesh Subramanyam: No. ultimately, it's about the margins. What we are saying right now is that they are in early stages of development. So, once it stabilizes in terms of the initial capital and the infrastructure that we will have to put in, then I think we can start talking about. Right now, they're all in building stages. And we would love to put all of them in WIP and CAPEX, but accounting treatment doesn't allow. But strictly speaking, they are in building stages. That is why we are not wanting to kind of come to a conclusion on what the guidance on margins could be.

Sumit Kishore: And all these customer-oriented businesses are sitting in Tata Power Solar?

Ramesh Subramanyam: Except the pumps, which is sitting in Tata Power Solar, others are in Standalone, but we are going to merge Tata Power Solar also, as you know. So effectively, all these new businesses will be in the Standalone.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Sir, my question is on longer-term strategy. So, 2 months ago in the annual analyst meet, you kind of laid out the path to improving the consolidated ROE to a much higher level. If I remember correctly, 12%-13% plus. But at the same time, you are deploying the capital in the renewable business. And if I look at, say, year-to-date FY 21 PAT of about ₹ 254 crores, this is basically consol renewables without EPC. On a net worth of about ₹ 8,000 crores, on the operating capacity ROE appears to be less than 5%. And we are deploying even more capital behind a business where based on the current results, ROE appears to be less than 5%. So how do you reconcile the two? Because on one hand, the business appears to be pretty suboptimal ROE and at the same time we have laid out this vision to of increasing consolidated ROE to a much higher level?

Ramesh Subramanyam: So, there are 2 important aspects to it, right? One is, structurally, these businesses have a certain curve when it comes to ROE. The initial period because of interest, depreciation and deferred tax, they generally tend to have a very low ROE to start with in the first 3-4 years. Then as repayment starts happening and tax rewinding happening, the ROEs grow. This is one issue. But that doesn't mean that there is no equity return because the cash generation is strong. And all this, when you put back and you see the overall return on the cash which is redeployed, then the ROE is very different. That is one point. Second is, the whole concept of InvIT, we are doing only to take care of the assets because our invested equity outside of the balance sheet of Tata Power will be only our share in the InvIT, and the InvIT is designed to give a certain flat and regular yield. That then becomes straightaway a high-yielding equity, right? So that's the whole idea. And by also the premium that you get on selling the assets to the InvIT also helps you to reduce your capital invested, and therefore increase the ROEs. So, the whole idea behind the plan of InvIT. is to, overall, really jack up the returns on the invested equity in these assets. And therefore, our target is still absolutely on course on trying to develop our returns on equity.

Atul Tiwari: So sir, for this 2,700-odd MW operation capacity, what would be the weighted average life as of now? I mean, for how long time they have been operational? Any kind of rough number? Is it like 5-6 years or less than that, or more than that?

Management: Average age would be around 5 years.

Atul Tiwari: So sir, even after 5 years we are having 5% ROE. And obviously, the project would have started execution maybe 18 months earlier. So maybe we're looking at like 7 year project to kind of first hit the ground and we are doing 5% ROE. So, don't you think it will kind of hinder your journey towards a much higher consolidated ROE? I mean, ex of this InvIT transaction. InvIT transaction, of course, will boost the ROE, but on an ongoing organic basis, if project even after 7-8 years is giving you just 5% ROE, it's very difficult to reach a 12-13% consolidated ROE in that kind of business, right?

Ramesh Subramanyam: So I think we'll have to sit with you with the math. But the point is that there are 2 - 3 issues, which you are forgetting there. In some of these assets, we've already kind of repaid loans. So that has been taken away. Then the net worth is not the right denominator because investor ROE is much lower. And therefore, if your question is whether the long-term returns are answerable, the answer is yes, they will add up. And you'll have to see probably the entire life cycle of the return, then it will match up.

Moderator: Thank you. The next question is from the line of Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: What is the free cash flow figure at the end of 31st December?

Ramesh Subramanyam: Free cash flow for this year is about ₹ 3,500 crores before CAPEX

Rajesh Majumdar: Before CAPEX, YTD?

Ramesh Subramanyam: Yes. And CAPEX was around ₹ 2,000 crores. We have ₹ 1,500 crores of free cash flow.

Rajesh Majumdar: What is our target of free cash flow generation given all our upcoming projects? Given that the fact that we have a CAPEX program of nearly ₹ 5,000 crores odd per annum across all the regulated businesses mostly?

Rajesh Majumdar: And what would be our dividend policy if we account for ₹ 5,000 crore kind of CAPEX every year?

Ramesh Subramanyam: I think I won't be able to give you a forward-looking statement like that. All we are saying is our ability to pay dividend and accommodate a higher CAPEX would be higher because of 2-3 things. One, the full effect of interest savings. Second is our dilution in the renewables business would give us further cash, and that means our cash generation increases. Therefore, our ability to have cash other than the equity that we've invested on this CAPEX will be much higher, and therefore, the dividend paying ability would be definitely better. So that is how our plan is calibrated. And remember that we still have a lot of room in terms of debt. We are going to be very low on debt equity post the InvIT. So therefore, we have a room there to capex without investing further equity. So that should answer your question.

Rajesh Majumdar: My second question is on the regulated business side. If we look at your planned program on the T&D side, Mumbai and Delhi is going to account for nearly 12,000 crores over the next 5 years, if I'm not mistaken, till FY '25, that's per your program. And the last 3 years, we have just invested around ₹ 5,000 crores in these 2 circles. So, given the size of these circles, is there any risk in terms of the regulatory CAPEX that we're going to do in these circles? Or can you give us a broader game plan on this?

Ramesh Subramanyam: I think our longer plan which we have shared during the strategy, which had 2-3 elements, which is beyond the current businesses. One is the Odisha circle plus expected expansion and plus a certain specific program in Mumbai transmission, which was a significant CAPEX plan, which is going to happen, which is not comparable with the past. So, all this put together is what that plan was.

Rajesh Majumdar: On the significant CAPEX in Mumbai, I think it's about ₹ 6,000 crores, you don't apprehend any kind of approval issues on that?

Ramesh Subramanyam: No, because we believe that there is a need for that CAPEX, and we expect that it will get approved because that is the need of the hour right now.

Praveer Sinha: In any case, we spend this money only after we get the in-principle approval. So only after the state transmission unit and the regulator approve it, we go ahead and execute these orders. So they are, to that extent, protected that we will get the regulated return.

Rajesh Majumdar: No, I'm just saying that if you are going to get the regulatory approval or not, because a large part of our growth in the regulatory business depends on that CAPEX?

Ramesh Subramanyam: You're right. I think this has been after considering the entire network plan for the next 5 years. There is a clear need that has emerged in our assessment, and we believe that there is a very good case that the regulator will approve it because we know why the CAPEX is required.

Praveer Sinha: In fact, for the next 2 years, already ₹ 2,000 crores have been approved. So, for next 2-3 years, they have already approved a large amount of CAPEX plan.

Moderator: Thank you. Ladies and gentlemen, we have come to the end of the scheduled time. I now hand the conference over to Dr. Sinha for closing comments.

Praveer Sinha: So, thank you to all of you for joining us for the call. And wherever you have more questions, my colleagues will be more than happy, Kasturi and Rahul Shah can offline take these questions and respond to all of you. And we look forward to receiving your feedback and improving the services that we can provide, especially considering that we have a long-term strategy, and your feedback is important for implementing them. So once again, thank you and look forward to interact with you again.

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