



# “The Tata Power Company Limited Q2 FY '2021 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day. And welcome to the Tata Power Q2 FY '2021 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 call, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded.

Today we have Mr. Praveer Sinha – CEO & MD, Tata Power; and Mr. Ramesh Subramanyam – CFO, Tata Power, with us on the call. I now hand the conference over to Mr. Praveer Sinha. Thank you and over to you, sir.

**Praveer Sinha:** Thank you, Raymond. Good evening, everyone. And welcome to the earnings call of Tata Power for quarter two of FY 2021. With me on the call is my colleague, CFO- Ramesh Subramanyam; Financial Controller-Anand Agarwal; and the Chief of Investor Relations Mr. Kasturi Soundararajan.

Quarter two has been an eventful quarter for Tata Power with a robust operational performance across all businesses, and significant deleveraging through a number of measures that we had laid out in our long-term strategy. Despite COVID-19, the Company has achieved very good progress in this quarter. We have seen a sharp recovery in demand, with sales in our Distribution circles picking up almost 35% compared to Q1 FY21, though it's a little below than the previous year.

Collections in the Distribution business has improved, though it was severely impacted in the first quarter. And we expect that it will become much better going forward. Our overdues from state DISCOMs have also come down in the last two quarters. All our thermal assets have run on higher availability. CGPL under recovery reduced sharply with the falling coal prices, better coal sourcing and logistics management. The fuel FOB under recovery has reduced from 52 paisa in Q2 FY 2020 to 46 paisa in Q1 FY 2021, to 30 paisa in this quarter. While the fall in FOB prices led to reduced profits in the coal companies, on a combined basis CGPL and coal related businesses generated a combined profit of ₹ 39 crores without one-offs. We now have two back to back quarters of profit in this cluster. With the planned debt reduction in CGPL and the merger with Tata Power, CGPL issues are now fully contained and it is likely to become self-sustainable in future.

We continue to improve availability across the renewable assets with the Company taking over the operational control of certain wind sites and certain preemptive maintenance activities carried out through RCM. However, in the last two quarters, we saw very low wind speeds across India due to weather patterns, which led to significant

reduction in generation. The pickup in economic activities as lockdown restrictions have been relaxed, have helped in our EPC businesses returning to normalcy.

Tata Power Solar's total revenue jumped from ₹ 405 crores in Q1 to ₹ 1,014 crores in Q2. Solar EPC business continues its rapid growth with orders received in Q2 of ₹ 1,556 crores for 347 megawatts of solar projects, taking the total order book to almost ₹ 8,687 crores as of end September, with nearly 2.2 gigawatts of large projects in pipeline.

The delays in project execution during the previous quarter will be made good in subsequent quarters as we are seeing increased site activities. The current order book is likely to be executed over the next 12 to 18 months. Similarly, Tata Projects turned to profit of ₹ 41 crores this quarter, compared to a loss of ₹ 35 crores in the last quarter. With all these improvements, we have clocked a 10% growth in reported PAT, to ₹ 371 crores compared to reported PAT of ₹ 339 crores last year. The Company has now reported an increase in profit on year-on-year basis for the last four quarters, and this is the second consecutive quarter of PAT increase of 10%.

The consolidated revenue stood at ₹ 8,413 crores compared to ₹ 7,329 crores in the previous year, mainly driven by higher generation in conventional assets, TPCODL acquisition and solar EPC business which, off course, has been partially offset by lower wind generation. The consolidated EBITDA in this quarter was ₹ 2,276 crores, up by 7% compared to last year, mainly driven by lower under recovery in CPGL and higher Solar EPC business, offset by lower wind generation. The lower coal prices affected the profit of coal JVs in this quarter, but due to improve business in Tata Projects and Prayagraj, the underlying business EBITDA is 7% higher at ₹ 2,472 crores this quarter.

During this quarter, the Company won bids of 347 megawatt of solar projects. With this, the Company's renewable project development pipeline moves to 1,237 megawatts, with further 370 megawatts of solar project awaiting letter of award. The total renewable portfolio of the Company will grow to 4.4 gigawatt when all these projects gets implemented.

Moving on to the balance sheet and the progress on deleveraging, we have seen a meaningful reduction in the debt with the receipt of the balance consideration from ship sale, and completion of preferential equity issuance. This helped us to reduce the net debt from ₹ 43,578 crores as on 31st March 20 to ₹ 36,840 crores by the end of this quarter. Our debt-to-equity ratio has sharply improved to 1.52x from 1.81x in previous quarter. Similarly, debt to underlying EBITDA has improved to 4.01x by end of September. This significant improvement in debt metrics achieved over the last few quarters has helped

the Company to secure an upgrade in its credit rating with CRISIL upgrading the long-term rating to AA stable, and ICRA changing the outlook to positive on its rating of AA-. The improving credit rating and reduction of debt will assist the Company in reducing the interest cost and optimizing its finance cost.

We are also happy to inform the completion of the defense sale transaction at ₹ 1,076 crores and Tata Power has received cash of ₹ 539 crores, net of the debt of SED. Besides reducing the debt of the Company, this sale also addresses many investors concerns on Tata Powers indirect involvement in defense related business, and therefore we expect positive impact on Tata Power's overall ESG ratings.

Work on setting up of an InvIT for a renewable asset has progressed very well, with the non-binding term sheet now signed and due diligence underway. The progress has been as per the plan, and we are expecting to complete the restructuring in next two - three months. We will share the terms once the binding agreements are in place.

The various pieces of our strategy to strengthen the balance sheet is shaping up as planned, and we are very confident of achieving the ₹ 25,000 crores net debt target at the end of this financial year. While we work on reduction of debt through divestment and restructuring, the focus on generating strong cash flows and recalibrating CAPEX in line with the cash position will help us to achieve sustainable ratios.

Our discussions on the revised GERC framework for compensatory tariff for Mundra is continuing. However, with the significant fall in coal prices, which have resulted in CGPL and coal businesses reporting profit, CGPL is likely to become sustainable on its own cash flow. We foresee coal prices to remain low in the future which will make the compensatory tariff maybe less relevant in overall context.

In the recent businesses taken over, both Prayagraj and CESU have good quarters. In fact, in Prayagraj, we continued to see very strong operational performance, achieving a 76% availability in this quarter. PPGCL also recovered a significant part of its receivables under the COVID-19 package of Ministry of Power Government of India, which was received by the state. Along with the share of PPGCL's profit, Tata Power is also providing O&M services, which is paid separately.

We have now completed a full quarter since taking over CESU through TPCODL and we have seen significant improvements in the operational and financial parameters. Despite COVID-19 related challenges, we have achieved the parameters that we had originally planned. We have been able to reduce the provisional billing by almost half and improve our collection efficiency from around 85% in June to almost 99% in the last

quarter. We are confident of the turnaround of this business as per our plan in the next 12 to 15 months.

The growth in our consumer-oriented businesses continues to be promising and we continue to build partnerships for the future. For EV charging, the geographical presence of our EV charging network has been enhanced from 19 to 23 cities, and 203 public charging points have been installed. Tata Motors has recently issued a Letter of Intent to Tata Power for development of EV charging ecosystem required for deployment of 300 e-buses in Mumbai. We have also entered into agreement with MG Motor for setting up public charging infrastructures at their dealer places. Similar agreement has also been signed with JLR. Similarly, we have received a LOA for almost 5,000 solar pumps during the quarter. And we have also been awarded a 6.2-megawatt order for the largest carport from Tata Motors.

Our rooftop business presence has now expanded to more than 100 cities, and we have 27% market share as per the latest Mercom report. Our micro grid installations continue to rise with a pipeline of more than 130 installations and we have been able to reach to nearly 800 customers, as on end September. Agreements have been signed with partners to provide efficient electrical appliances, and we are working with Grassroot Energy to explore electricity generation through biomass and biogas technologies.

The Company continues to make considerable progress towards its long-term strategy and appropriate actions have been set in motion to address challenges of individual businesses, so that the Company can deliver an overall value to its shareholders and investors. We are excited about this journey. And I am grateful for the support and patience shown by all of you in this journey.

I now hand over the call to Raymond 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 Mohit Kumar from DAM Capital. Please go ahead.

**Mohit Kumar:** Congratulations on good set of numbers. Sir, my first questions is, I do understand that you have not been able to share the valuation of InvIT, so first can you give a broad understanding of the timeline? And are we confident that we will be able to close the deal by March 2021, including the entire transfer of the asset to InvIT?

**Ramesh Subramanyam:** Yes. I think we are confident that we will close the transaction before the end of the year. In fact, we are trying earlier but definitely before the financial year ends, we will be completing this.

**Mohit Kumar:** And what was the binding term sheet and any kind of idea on the leverage you are expecting in the InvIT?

**Ramesh Subramanyam:** Well, as you know the unlisted InvITs don't have any particular leverage, this will go by finally what the rating agencies and banks agree upon finally when they give out the ratings. And normally, one has to form the InvIT to get the final rating and the sanctions. So therefore, I think the rough ballpark is that the traditional debt equity ratios cannot be applied to an InvIT situation, they are lower. Now, how much lower would finally depend on what the rating agencies and the banks agree upon to give an optimal rating as well as a good lending term. So, that's the broad indication we can give you. And you know that in the listed InvIT segment the SEBI's starting debt is 49%, so in unlisted there is no such limit, so it will be definitely not constrained.

**Mohit Kumar:** Okay. Sir, secondly in this quarter we have seen a sharp turnaround in CESU, and there is some sort of higher profit in this TERPL, is there some sort of one-off in both entities?

**Praveer Sinha:** Sorry, can you repeat, you talked about CESU?

**Mohit Kumar:** CESU and TERPL, the shipping Company.

**Ramesh Subramanyam:** Shipping Company?

**Mohit Kumar:** Shipping Company and CESU, both Q-o-Q and Y-o-Y, Q-o-Q numbers are slightly off so I am trying to figure out is there something one-off there.

**Ramesh Subramanyam:** So shipping Company is only because of the tariffs, because it is also linked to the CERC's escalation indices. So when the indices are favorable, they make higher profits, when they eventually catch up, they match the market rate. So, the corollary is that when the shipping Company charges high, CGPL pays them higher freight. So for us, in a consolidated manner, it doesn't matter, because the earnings of the shipping Company are the cost of CGPL. Right. So individually it doesn't matter. But to your question that why is it different? That is because it is influenced by the CERC indices. And your other question was on CESU.

**Mohit Kumar:** CESU, yes, Q-o-Q there is a sharp improvement.

**Ramesh Subramanyam:** Yes. So, one, that is more because of the application of the relevant accounting standards in such acquisitions, where the accounting standards require you to follow a certain process, and which has been adopted here. So last quarter it was not adopted, so as a

result the last quarter's reported loss was reversed in this quarter. As a result, you are seeing that increase, but actually this doesn't belong to this quarter.

**Mohit Kumar:** What would be the adjusted number, if I may ask?

**Ramesh Subramanyam:** Adjusted number would be ₹ 2 crores.

**Moderator:** Thank you. The next question is from the line of Murtuza Arsiwala from Kotak Securities. Please go ahead.

**Murtuza Arsiwala:** Sir, two questions from my side. One on the balance sheet, we see the capital work in progress increasing, would that be largely attributable to renewable assets or if you can give some colour, in the last six months. And second is, while I understand that the low under recovery makes you less dependent on the compensatory tariff, could give you some colour on where the compensatory tariff is sort of progressing? Because it is still a risk mitigating sort of measure. So where are we in terms of signing the compensatory tariffs?

**Ramesh Subramanyam:** So to your first question on the capital work in progress, so that is largely renewable. And we have some transmission projects in the regulated businesses which is going on. So both are the ones, and they are likely to get converted before next 12 month. So that was one. The second is on the compensatory tariff, where are we. So as Mr. Sinha outlined in his initial remarks, while we are in discussions with the government, there are differences in the initial conditions and the subsequent conditions that have been put. So we are in discussions with them. But I think we are coming more and more to a conclusion that if the long-term outlook on coal is not likely to firm up very soon, so really speaking, for us it is becoming less and less relevant. And what we have done is, keeping that in view, we have actually kind of already sized the debt down. And by the end of the year or let's say in the coming months, we might see CGPL debt go down to as low as ₹ 4,000 crores, which will mean that it will become self-sustaining in any case. And as you know, there is a hedge which operates as a result of which, if the coal prices were to go off anyhow, we do have a hedge in the coal companies. So, our overall plan has been always agnostic of any solution that is coming out of compensatory tariff.

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

**Puneet Gulati:** Sir, just continuing on the compensatory tariffs, is it fair to assume that you are not pursuing the issue with as much rigor as you would have been earlier?

**Ramesh Subramanyam:** Our view is that if they come on our terms, it could have been a different issue. But right now, there is no such traction. Also, for us, see, we cannot be running the business assuming certain things will go our way, so we are planning completely to make this business sustainably run on its own. And those are the steps we are already taking.

**Puneet Gulati:** Okay, great. My second question is, in your standalone balance sheet, there is a ₹ 17,300 crores of debt which has significantly come down. Out of this, how much would relate to the regulated business?

**Ramesh Subramanyam:** So about ₹ 6,000 crores.

**Puneet Gulati:** Okay. ₹ 6,000 crores would be regulated and the balance ₹ 11,000 crore-odd is unregulated, is it, for the other investments?

**Ramesh Subramanyam:** Yes, they are for all the other investments. And the rest of the non-core asset sale, plus the dilution in the renewables business will result into debt coming down to a much, much lower level. This reduced level will be reflected more closer to finally something above the regulated debt which will be there.

**Puneet Gulati:** Okay. Great. And on the SED sale, will there be any capital gains tax implication? And to what extent?

**Ramesh Subramanyam:** No.

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

**Swarnim Maheshwari:** Congratulations for good set of numbers. Sir, three question. Sir, firstly, I mean, you did mention that you guys are expecting the coal prices to be on the lower side for the future as such. Now, my first question is with respect to that. Do you think that it then really makes sense to look at the coal mines? Because for CGPL coal can be really outsourced from somewhere else also. So, is there any thought process that we will be actually looking to sell our coal mines also at some point in time?

**Ramesh Subramanyam:** So, right now, our first focus is to get a license renewal in KPCL. The good news is that in Arutmin, which was the other mine which we sold and we have not closed the transaction because we have not got the full money, there the license extension has come through. So once the license extension comes through, we will have to look at all these options. And you know, at the end of the day, everything will depend at what value and what is the response we get.



**Swarnim Maheshwari:** Okay. All right. Secondly, on the divestment side, now we have actually realized a fair bit of divestment proceeds from our non-core investments. If you can just actually share what is now pending to be realized in Q3 and Q4 from the non-core divestments?

**Ramesh Subramanyam:** So, right now we are pursuing, in our list of assets, the Georgia investment which is the hydro investment, and the Zambian hydro investment. And lastly, what was defined as non-core, Tata Projects, and there is a smaller coal mine which is BSSR. So, all these four assets are there, which we are pursuing for completion in the coming quarters. That's pretty much where we are.

**Swarnim Maheshwari:** This sale of the proceeds from the defense business, this has been realized in Q3. Are you expecting any other sale, so the impact on the balance sheet that will be reflected in Q3?

**Ramesh Subramanyam:** While we are trying everything, I must say that because of COVID and because of the sentiments in the market on the assets which we are out for in the market, both in Africa as well as in Indonesia, I don't think that we can expect a closure in Q3 for sale of other assets. But certainly, we are trying to do it in the quarter thereafter. Because the process is on, by the way, we are not letting up the process, but the traction is something which we will have to keep a close watch on. But we are confident of getting it through sooner than later. But I must tell you in addition, that our target for net debt will be met nevertheless, even if we are delayed on these other divestments, because these are not very high ticket items, these are not going to move the needle. Our broader target of going under ₹ 25,000 crore is on track.

**Swarnim Maheshwari:** Right. And sir, did we receive anything from Arutmin this quarter?

**Ramesh Subramanyam:** Yes, we did. I will give you that number separately while we discuss.

**Swarnim Maheshwari:** And maybe if you can also give the pending amount.

**Ramesh Subramanyam:** So it is ₹ 33 crores, so it is about 5 million.

**Swarnim Maheshwari:** Okay, so the pending amount from Arutmin now would be about \$160 million?

**Ramesh Subramanyam:** Yes, correct.

**Swarnim Maheshwari:** Okay. And sir, finally one last question. What will be the captive order book in our solar EPC, would it be about 50% odd?

**Ramesh Subramanyam:** So about half is captive.

- 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 on the stake sale of renewables to the InvIT platform, from a consideration point of view, how much premium or so can we look at? And the next question is on, as you said the coal prices, you foresee subdued prices, on a net to net effect taking CGPL as well as the coal SPVs, where do we see our profit in those two segments going forward?
- Ramesh Subramanyam:** Okay. To your first question on the premium on the sale of renewable assets, I am afraid we can't share with you right now because the transaction is still in process. So as and when the final value would be available, we will be informing formally. But you know the market so you are in a good position to assess that. And your other question on net-net on CGPL and coal. So once we complete our debt restructuring of CGPL, then we expect that together these two assets would be slight positive, and they will continue to be so regardless of the coal price, because one or the other will take the benefit of the movement in coal prices. That is the whole objective of ensuring that we don't put any more equity or support into the combined assets.
- Anupam Goswami:** Okay. Sir, as you mentioned that the consideration and transaction taking place and you can't disclose, what is the benchmark that is being decided on taking on a premium on this? What kind of parameters that are looked at?
- Ramesh Subramanyam:** So Anupam, I think that you are in this business, you know the standard parameters in these kinds of businesses is an EV to EBITDA, or price to book, or DCF, or a combination of all these three, this is the standard valuation and we follow the same methodology or even the investors follow the same methodology. So the only limited point is, we can't guide you with a number because we are in transaction mode, so we can't disclose that number. But you can see the latest deals that are happening in the market, and I am sure that you will be able to get to a ballpark.
- Anupam Goswami:** Right, I will get into that. And sir, last question, when can we expect the restructuring, as in the merger of CGPL & Tata Power Solar in to the standalone?
- Ramesh Subramanyam:** So both these merger proposals are in NCLT and hearings have begun. And we expect, of course, it's difficult to say that on behalf of NCLT, but I think the next three to six months should be a reasonable time period by which these things should be over. Because in between we do have processes of creditors meeting or the shareholders meeting, etc. So that process has to be followed there. We do expect to get it done before the year end.

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

**Aniket Mittal:** Sir, firstly, I think we won certain projects on the renewable front itself. So you just trying to understand what would be the overall CAPEX that we are expecting for FY 2021 and for FY 2022, particularly on the renewable front?

**Ramesh Subramanyam:** So we have currently about 650 megawatts of assets under construction. And typically, that would be about close to ₹ 3,000 crores to ₹ 3,500 crores. We would be spending probably more than half of it, or a majority of that CAPEX would be over in this year. Some spillover depending on the progress would be there in the next year.

**Aniket Mittal:** Sir, how much of that do we expect to commission this year?

**Ramesh Subramanyam:** So, commissioning this year we are targeting 650 megawatts, but maybe it will get spillover to next quarter, because of COVID a lot of delay has happened in the first half, so we are catching up.

**Aniket Mittal:** Okay. Sir, you also have other projects that are lined up, the work would have started but we still have, the overall pendency is higher than 650 megawatts, right?

**Ramesh Subramanyam:** The 650 megawatt is our own development that is under construction.

**Aniket Mittal:** And sir just from an overall perspective, let's say, ₹ 3,000 crores to ₹ 3,500 crores are the renewable front, how much on your regulated businesses can we expect the CAPEX to be? Because I think there are certain FGD plans that we had, if I am not mistaken.

**Ramesh Subramanyam:** So, I will tell you the number, the total CAPEX that we expect in the rest of this year is going to be about ₹ 3,800 crores, of which half of them would be renewable, and the rest would be amongst various regulated businesses. And there will be some for the new businesses which is essentially EV and some would go into some of the non-regulated businesses. But largely, about 85% to 86% of this is going to regulated and fixed tariff businesses.

**Aniket Mittal:** Sure. And also from the solar manufacturing front, we have seen a decent uptick in the execution during this quarter, what sort of execution can we expect, let's say, over the next 12 months or so? We do have a healthier order book, so just trying to understand in terms of, let's say, revenues, is everything normalized, I mean, what sort of execution do we see over there?

**Ramesh Subramanyam:** I think the current order book, as you know, is 2.2 gigawatt. About ₹ 9,000 crores are the order book. Now, the whole issue is that since the activity level has just peaked up, we would assume that about half of that would be probably next year and the rest would be covered in this year.

**Aniket Mittal:** Okay, sure. Sir, one question on the shipping business itself. Now I was actually wondering, given that we have actually sold those three ships, our EBITDA and PAT number rightly would have been impacted, because the revenue and the EBITDA from that could not have come in our financial system, what I was expecting. But still, the overall number seems to be pretty high. So I am just trying to understand what's happened over there, on the shipping business front.

**Ramesh Subramanyam:** So, first is that we have sold the ships, but we do have the contract, so the business operations continue. The only thing is we don't own the ships, but we have the contract. Second, this high number which we are seeing is mostly to do with the tariff linkage to the CERC index on the fuel price. And in the last revision of the index was high, so the revenue book there was high, but consequently CGPL pays also a higher amount, right? So, while on a consolidated basis it is a zero-sum game. But individually, the shipping companies would seem to have made a higher profit in this quarter, but subsequently there will be a catch up because it is a time lag between the actual shipping prices and the final notification of CERC.

**Aniket Mittal:** Sir, just one thing, you said that you don't own the ships but still have the contracts, so the revenue and EBITDA from this is still flowing in, is what you are saying? And this would then sustain?

**Ramesh Subramanyam:** Yes, absolutely right. A certain minimum level of EBITDA will sustain, not as high as this because this is more due to a carry forward of the indices effect, once the indexes normalize it would be at a slightly lower number. But yes, there would be EBITDA.

**Aniket Mittal:** And sir, you mentioned that you have done an adjusted PAT of around ₹ 2 crores in CESU, so I am just trying to understand what is the overall T&D loss over there? Overall AT&C loss or T&D loss, if you can give.

**Praveer Sinha:** So it is 28.1%.

**Aniket Mittal:** Okay. And what would be the AT&C overall, I mean, it would still be around 30% or so?

**Praveer Sinha:** No, this 28% is the actual AT&C as of end of October and we have brought it down from 40% levels. Now, as per the tariff, which has been fixed, in three years' time we have to reach 23.7%. That's where we are heading.

**Aniket Mittal:** Okay. And lastly, our trajectory in terms of the reduction of AT&C loss would be similar to that has been the sort of the normative T&D that has been fixing the tariffs, is that fair to assume?

**Ramesh Subramanyam:** No, the correct statement to make is, the trajectory is in line with what was, let's say, targeted in the bid. Because if it is higher than you will see losses in the result. So as long as you are seeing positive, or at least we are on track.

**Aniket Mittal:** Sure. So can with an AT&C loss of 28% we are coming with a positive number, that means largely it is close to the normative number.

**Ramesh Subramanyam:** Yes.

**Aniket Mittal:** Okay. And sir maybe in your PPT you mentioned a broad sort of outline in terms of the consumer facing businesses that you are highlighting. Sir, could you give certain insights into what sort of revenue or profitability can we expect from some of these businesses, particularly in the solar pumps front and the EV charging front from, let's say, a two year perspective?

**Ramesh Subramanyam:** We don't give forward-looking statements. I think we had shared with you all the FY 2025 target on all these businesses. So we are tracking them on a six-monthly basis. I think the question was around, how we are doing on the new businesses of rooftops and pumps, etc. I must say that this quarter as well as six months have been seriously affected by the COVID related issue. But otherwise, we believe the second half would be far better, and we would be able to pick up pace. But we are working seriously now on all the marketing and distribution and launch initiatives. So you will see the results in the next four or five months, hopefully year end we will be able to make good progress on that. But on the ground things are working as per the plan.

**Moderator:** Thank you. The next question is from the line of Abhishek Puri from Axis Capital. Please go ahead.

**Abhishek Puri:** Congratulations for good set of results. Sir, two things, one, in your presentation you have mentioned for Mundra, there is some SCED scheme one-off, so could you elaborate what is that?

**Ramesh Subramanyam:** Okay. This is a central scheme which says that if your variable cost of dispatch is lower in a certain order, then you will be asked to dispatch out of turn. And the difference between your dispatch rate and what is available in the market is shared with you. So, that is the scheme which the Ministry of Power runs. And therefore, it shows actually a sign of competitiveness amongst the merit order dispatch. So, that is the income, it depends on what the market opportunities are available, we sometimes make money, sometimes we don't.

**Abhishek Puri:** So, what will be the amount here, one-off amount?

**Ramesh Subramanyam:** No, I think last year there was a loss, this year it is not there.

**Abhishek Puri:** Okay, No one-off this time?

**Ramesh Subramanyam:** No.

**Abhishek Puri:** Got it. Secondly, it was interesting to know on the CESU front that you are tracking the trajectory in the second quarter itself. Could you tell us in terms of the accounting change that we would have done or followed?

**Ramesh Subramanyam:** Well, let me put it this way, it is not accounting change, it is that adoption of the standard, because remember the first quarter there we didn't have the proper accounts after the takeover of the Company, so we could do the accounts finally in the second quarter only. And the accounting standard says that if you have a business acquisition which has a certain trajectory of investments in the initial period, and then that investment is recovered in the revenues or later on, then you can take the initial investment (losses) to the balance sheet, because these are plans and therefore as long as it is sticking to the plan it doesn't affect your bottom-line. So that is why we said that we are tracking it, because that's the way the standard works, that if we don't track it, then you would have to provide for the loss caused by not tracking it as per the plan.

**Abhishek Puri:** Fair enough, that is well understood. So in this scenario, would we put some of the CAPEX and interest and depreciation into balance sheet, right?

**Ramesh Subramanyam:** No. So as far as the new investment is concerned, which is CAPEX, that will reflect as ROE, just like any other regulated business, that will come to the P&L. Only the AT&C related deficit would go into the balance sheet. And positive also, if you are doing better than the plan, then the positive portion will go to the P&L, if it is worse than the plan, then the negative will go to the P&L.

**Abhishek Puri:** Thanks for that clarification. And lastly, the merger tax benefits, what could be that amount and when can we realize this? This is subject to NCLT hearing, right?

**Ramesh Subramanyam:** Yes, subject to NCLT, and it is effective 1st April 2020, as per the NCLT application. So whenever the order becomes effective, it will become effective from 1<sup>st</sup> April 2020. So the tax benefits in that sense, assuming that the scheme will get approved, have started to already tick. But you can't recognize it until the order comes.

**Abhishek Puri:** And for the regulated business, we cannot take these tax benefits, right, for the Mumbai regulated business?

**Ramesh Subramanyam:** No, until the order is in hand you can't.

**Abhishek Puri:** And if you are able to do the InvIT here, sorry just a clarification on this, if we are able to complete InvIT, say, before end of this year, so a large part of that gain can be offset against that?

**Ramesh Subramanyam:** Yes, if there is a capital gain on that, yes, it can be offset of course. And also there is a past losses also available. So therefore there is room for that.

**Abhishek Puri:** I was just trying to understand how soon can we utilize this?

**Ramesh Subramanyam:** No, it will be effective, see, the meter started ticking, it is just that you can't recognize it until the order comes in hand.

**Moderator:** Thank you. The next question is from the line of Subhadip Mitra from JM Financial. Please go ahead.

**Subhadip Mitra:** My questions were around CESU. So just wanted to get an understanding that given the COVID related impact, has there been any regulatory relaxation that is available on the AT&C loss thresholds as per the earlier contract?

**Ramesh Subramanyam:** No, there is no relaxation. But I think the regulator has promised to look into the trajectory if required. But as of now, since things are getting back to normalcy, we don't see any special relaxation.

**Moderator:** Thank you. The next question is from the line of Anuj Upadhyay from Emkay Global. Please go ahead.

**Anuj Upadhyay:** Congrats on a good set of numbers. Sir, two questions, starting with the three-distribution circle in Odisha, which we have bid for. So, any timeline when can we expect the final

outcome to be? And the follow-up to this would be, we have learnt that in this NESCO circle we are the sole bidder, so would it be fair to assume that the NESCO would come to us so there are some condition which we need to comply before assuming the same?

**Praveer Sinha:** As you rightly mentioned, in NESCO we are the sole bidder, so the regulator and the government is taking a view, whether they would give it to us based on our offer or is there going to be a rebid. So once we get clarity, we will be able to decide on the next course of action. As regards the two bids where we have submitted, we expect by end of December they will possibly come out with the decision on the same.

**Anuj Upadhyay:** Fine, sir. Second one on the Mundra, the presentation mentioned that in October we have already repaid around ₹ 2,600 crores of debt, and another ₹ 1,500 crores is likely to be paid in November. So with this, we are targeting to repay around ₹ 4,000 crores for Mundra. So any targeted debt level overall for Mundra over next one or two years where we would be comfortable enough to make the plant self-sufficient? The debt level I am asking, whether we are targeting to bring it below 10,000 level, 8,000 or something? That would be helpful, sir.

**Ramesh Subramanyam:** No, already in the next month or so we will be infusing about ₹ 1,500 crores, that is the plan already there. With that we will be down to ₹ 4,000 crores, that's all third-party debt, no more than that. So, which will sustain the Company in any case on that. Because if you see the EBITDA trajectory, then you will see that then it will easily self-sustain.

**Moderator:** Thank you. The next question is from the line of Dhruv Muchhal from HDFC Asset Management. Please go ahead.

**Dhruv Muchhal:** Sir, question on CESU. You mentioned that the losses have come down, AT&C has come down from 40% to 28%, which seems quite impressive given that we have taken the circle only about six odd months. So sir, given the initial success, do you think there is probably initial thoughts on can we probably beat the 23% target over the next three years significantly?

**Ramesh Subramanyam:** So first of all, I want to clarify that the 40% number is because of COVID, wherein there was a collection issue. So it is not that it was initially this number, actual AT&C losses was otherwise much lower, but for the collection issues in COVID. But yes, it is coming down. And to your question on 23.7%, yes, we are hoping to reach that target much earlier than the target. We are trying to do something in the next 12 to 18 months, what was supposed to take two years or three years.

**Dhruv Muchhal:** Okay. So sir, what number did you start with, the AT&C number?



**Praveer Sinha:** See, this was a temporary phenomenon because we took it on 1st June, so this was amidst the COVID period. Otherwise, last year, they had AT&C of 30%. So, the trajectory was made on that basis. So on a temporary basis, because of COVID it had gone up to 40%. But otherwise, we have already reached a level of 28%.

**Dhruv Muchhal:** Got it. And sir, so initially at least I was expecting that for a couple of years CESU on a PAT level probably will be a drag, some marginal drag, but it will cause some drag, But given 2Q and given probably some change in the accounting, do we expect now that at least we will be breakeven there or marginally positive, at least for the next two years?

**Praveer Sinha:** Well, one can reasonably say so, we are confident of meeting our trajectory, in which case then we won't have to book any additional losses. And then the only CAPEX and regulated equity that is there will keep us earning the ROE. So your conclusion is right, if we do our job well, which is what we are doing today, I think we should be marginally positive.

**Dhruv Muchhal:** Okay. So the accounting works this way that, as long as the target which you have set as per the agreement or as per your internal targets, as long as that is met that is okay, I mean, that will not cause a drag to the P&L?

**Ramesh Subramanyam:** Correct.

**Dhruv Muchhal:** Got it. So the target earnings by the end of third year will be on 23%, which currently the actual loss is around 28%?

**Ramesh Subramanyam:** Correct.

**Dhruv Muchhal:** Sir secondly, if I look at the Mundra plus the coal JVs and plus the logistic companies, this quarter is the best ever quarter that we have done probably in the last two, three years. I understand one part is because of the logistics, one of that you mentioned. But sir, is it fair to say that this is not a one-off, because you mentioned that Mundra is already paying that amount. So in the next quarter Mundra will have a higher EBITDA and there will be lower EBITDA in the logistics Company?

**Ramesh Subramanyam:** Correct.

**Dhruv Muchhal:** So this is not a one-off as such?

**Ramesh Subramanyam:** This is one-off as far as shipping Company is concerned. From consolidation perspective, no.

**Dhruv Muchhal:** So sir, if you can say something on what's driving this strong performance, is it the Mundra, I mean, some efficiencies that you are probably gaining in Mundra in terms of lower coal cost, or what's driving this? Because after the shipping Company we thought there should be some impact on the EBIT, I understand they will still generate EBITDA, but there should have been some impact on EBITDA. But despite that, the numbers are quite strong.

**Ramesh Subramanyam:** Yes, so the reason is twofold. While the market fell, our mines also launched very strong cost control measures, and they have been able to absorb a significant portion of the price decrease in the market. And that is something which coal companies do it, but they have done a good job in these last six months, in terms of cost cutting everywhere. And therefore, they have reduced the impact of the price. On the other hand, in CGPL, we have managed to purchase coal at much lower than the market. And that is also because of, I would say, the advantage of the current market, we have been able to buy shipments at attractive prices with higher CV. So when you do a combination of good quality and cheaper logistics cost and cheaper FOB price, you end up beating the market price. So I think what has happened is, in this quarter especially, and we have been seeing this for the last six months, that our ability to squeeze costs in a glut scenario is much higher at CGPL level, and the coal companies are tackling the price decline by putting severe cost control measures. So it's both ways.

**Dhruv Muchhal:** So Sir, if I have to put it this way, the under recovery absolute amount would be about ₹ 200-odd crores for the quarter, if I just do the volume into the under-recovery amount that you have given. So how much of that would have been higher if this efficiency sourcing would not be there?

**Ramesh Subramanyam:** It is difficult to give one number for efficiency sourcing, because of the quality and quantity and CV factor. Rahul can share the broad number with you.

**Dhruv Muchhal:** Sure. And sir, just last two quick ones. In your presentation you mentioned that 150 megawatts at Maithon, your PPA is expiring.

**Ramesh Subramanyam:** Yes.

**Dhruv Muchhal:** Okay. So the PPA is getting over is it, the long-term PPA is getting over?

**Praveer Sinha:** No, there is a right to one of the buyers to call off the PPA at a certain interval, which they are opting for. So we will find alternate buyers. So we will tie up that power with others.

**Dhruv Muchhal:** Okay. And when is this expiring, sir?

**Praveer Sinha:** It's a September 2021.

**Dhruv Muchhal:** Okay. And sir last thing, actually, this was kind of a suggestion, if you can probably help us, because renewable will be becoming a bigger portion of your business now. Of the under-construction capacity, if you can help us provide what would be the revenue that you will be generating? Because that will help us model the business better, because there are multiple projects at different tariffs, so for us building that is extremely difficult. But if you can help us provide what the potential revenue would be of the under-construction portfolio?

**Ramesh Subramanyam:** Sure. So Rahul will separately tell you the rough math, that when the under construction assets come on board, what generally is the EBITDA.

**Dhruv Muchhal:** The revenue also would help, because probably you would know...

**Ramesh Subramanyam:** Yes, sure, from there you can always work backwards. Sure, we will give you that.

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

**Aniket Mittal:** Sir, most of my questions have been answered, just one question on the working capital front. You mentioned that there is some amount that you have received from the Aatmanirbhar scheme, if I am not mistaken. If you could just quantify that amount and just trying to understand your trajectory on the receivables front, could we see a further amount over there?

**Ramesh Subramanyam:** You are talking about Arutmin?

**Aniket Mittal:** No, Aatmanirbhar.

**Ramesh Subramanyam:** That's the main money for Prayagraj. We received about ₹ 750 crores. So I think currently we are at about three months odd outstanding in Prayagraj.

**Aniket Mittal:** Okay. And any sort of pending amount that we expect to come from the Aatmanirbhar scheme, is there any further amount that we expect to flow in from the scheme?

**Ramesh Subramanyam:** Well, only few states have really gone for it. I think Tamil Nadu has also opted for it. We are also a beneficiary, but I won't be able to share with you exact numbers now.

**Praveer Sinha:** But our money from Telangana due is very small.

**Aniket Mittal:** And overall on the renewables front, what would be your receivables amount, total receivables?

**Ramesh Subramanyam:** About ₹ 1,000 crores.

**Aniket Mittal:** And sir, maybe just one question on the trajectory of how interest costs are moving. One is, obviously, there is an upgrade in our rating that has happened, and also the overall interest cost environment right now is pretty benign. So just trying to understand from an overall interest cost trajectory, how do we see that moving? Is there any sort of benefit that we can get in terms of lower interest costs?

**Ramesh Subramanyam:** No, certainly. But remember that we have been getting very fine rates all through, higher than our ratings. So we do expect, already it's bottomed out in some ways. We are also seeing that the next couple of months we have some more monies to be received. Once that happens, we will have to see how we are to churn between short-term and medium-term and long-term. Maybe that will have some effect. But broadly, our weighted average cost should come down further a little bit in the next two quarters.

**Aniket Mittal:** Okay. And sir, just one last question. So I think an earlier participant had highlighted about the profits that you have at CGPL plus the coal mine, now that number looks a bit high. I was just wondering, is there any sort of lag benefit that you have got at CGPL because the prices have gone down, but maybe your tariff has not been revised? I am just trying to understand from a sustainability perspective for the couple of quarter, is there some lag benefits that you are getting at CGPL because of these?

**Ramesh Subramanyam:** So, actually, no there's not much of lag benefit, because look at the two, three things here. One is that, yes, there is a lag, that in the second half there will be a catch up. But on the other hand, we had a higher PLF in the first half, in the second half would be lower PLF, so there will be some benefit around that. So therefore, they may probably offset each other. So to answer your question, I don't think there is a serious one-off that is affecting these prices. They seem to be going in this direction, because of the fact I mentioned some time back, right, there is a good pressure on cost on the mining side.

**Moderator:** Thank you. We will be able to take one last question, the last question is from the line of Swarnim Maheshwari from Edelweiss. Please go ahead.

**Swarnim Maheshwari:** Sir, have we awarded the Prayagraj O&M contract to our O&M business? Or is it still done by someone else?

**Ramesh Subramanyam:** No, it is Tata Power.

**Swarnim Maheshwari:** Okay. So I mean, just wanted to understand, are the benefits of O&M, because we are one of the lowest O&M operations, so just wanted to understand what is the current O&M cost that is it for Prayagraj?

**Ramesh Subramanyam:** So, your point is right that we are one of the most efficient, but since it's an individual contract, we normally don't disclose. But we can sufficiently say that we are doing a good job over there, both, technically and financially.

**Swarnim Maheshwari:** Okay. So the efficiency is already reflected in the numbers?

**Ramesh Subramanyam:** Yes, absolutely. Because we do book that in our services.

**Swarnim Maheshwari:** Okay. And lastly, just on solar EPC, what are the kinds of EBITDA margins in this EPC business? And any guidance for FY 2022 as such?

**Ramesh Subramanyam:** So it's generally in the late single, nearly double that kind of range, depending on which contract. But you know the market, the market is very tight on EPC. So it's generally in the single-digits, probably at the end of the day the late single-digits.

**Swarnim Maheshwari:** Okay. And guidance on FY 2022, you did mention that you do expect your existing order book to get exhausted over the next 12 to 18 months. So I think a substantial amount should come in FY 2022 then?

**Ramesh Subramanyam:** Yes, that's correct. But we can't give you guidance on the numbers, but you have seen the order book, that's about ₹ 9,000 crores and that will all get materialized over the next 12 to 18 months.

**Moderator:** Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Sinha for closing comments.

**Praveer Sinha:** Thank you very much all of you for joining the call. And whatever additional information is required, you are most welcome to reach out to us, my colleagues Kasturi and Rahul Shah will be more than happy to provide you the required information. And you all take care and stay safe. Thank you.

**Moderator:** Thank you very much. On behalf of Tata Power, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.