

NHPC Q3 and 9M FY 2016 Earnings Conference Call

February 11, 2016

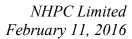






MANAGEMENT: MR. JAYANT KUMAR – DIRECTOR (FINANCE) – NHPC LIMITED

ANALYST: MR. DEEPAK AGRAWALA – ELARA CAPITAL





Moderator:

Ladies and gentlemen good day and welcome to the NHPC Q3 and nine month FY2016 Results Conference Call hosted by Elara Securities. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by pressing '*' then '0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Agarwala from Elara Securities. Thank you and over to you.

Deepak Agarwala:

Thanks Zaid. Good afternoon everyone. On behalf of Elara Securities, we welcome you all for the Q3 and nine month FY2016 conference call of NHPC Limited. I take this opportunity to welcome the management of NHPC represented by Mr. Jayant Kumar, Director (Finance) and his entire team. We will begin the call with a brief overview by the Management followed by a Q&A session. I hand over the call to Mr. Kumar for his opening remarks, over to you sir.

Jayant Kumar:

Good afternoon everybody. I welcome all my friends to the nine months and Q3 financial results and besides me, my colleague Mr. Arvind Garg, ED (PMSG) and Mr. Vijay Kukreja, ED (Finance) is also with me. I will just give you a little brief of the financial results which had come yesterday. Our Board has approved the nine months result and you must have seen the results. During these nine months we have made a very good profit. Basically profit is a function of generation, whatever we generate. I am very happy to say this year our business performance is going very nice. We are getting good availability of water and our power stations are running very nicely. Up to nine months we have generated 20,670 million units of power vis-à-vis 19,086 million of units of power of the corresponding period. So basically we have generated 8% more vis-à-vis the previous period and that is the reason our revenue has also been more. Our revenue has been Rs. 6541 crore vis-à-vis Rs. 6010 crore of the previous periods. Accordingly our profit has also gone up. So nine months profit has been Rs. 2336 crore vis-à-vis Rs. 1479 crore of the previous year. You must have heard we have a very good interim dividend this time, 92 paisa per share. We have started the system of paying interim dividends since last year. Last year we have paid around 20 paisa per share, this year we have increased our dividend to 92 paisa per share. I think this is in line with demand of our analyst friends who are always asking for interim dividend and that is why this time management has agreed for the same.

Besides, I want to say a few things regarding our capacity addition. You will be happy to know that our TLDP IV project of 160 MW which is coming up in the state of West Bengal and even two years back the project was practically closed because of the issue with our contractor HCC. On November 14 we had sorted out the issue with the contractor and you will be happy to know that two units of that project which is about 40 MW each has been mechanically run. Balance two units will come by June '16. So by commissioning of these two units of 80 MW our capacity will cross 5000 MW. Beside, the Kishanganga project which is 330 MW which is coming in J&K is also going on line and



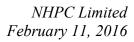
in the third quarter of the coming financial year 2016-2017 we are expecting that project will be completed. So by commissioning of these two projects and the balance of TLDP IV of 80 MW which is also coming in the second or third quarter of the next financial year total 490 MW capacity addition will be there and roughly 8000 crore of CWIP will be capitalized and accordingly you can understand our equity would have started earning and minimum Rs. 500 crore return on equity will start coming in our financial results. So this is a very important issue which I wanted to share with you.

Besides that as far our upcoming projects are concerned, we have got pre PIB sanction for Teesta IV project in Sikkim. FRA process, Forest Rights Act process is going on. We are expecting that the process will be complete by March-April and certainly we will be going to award that work. In the next year we are quite hopeful that the work on Teesta IV project 520 MW will be started. Regarding Tawang project in Arunachal Pradesh that pre-PIB is already under process. It has been circulated by the Ministry and we are expecting, if not by March, at least by April-May that pre-PIB will be done and we will be starting that project also.

Another thing is that, there is a project of 1200 MW, Teesta III that is Teesta Urja project in the state of Sikkim. NHPC has been appointed the lender's engineer in that project. We have taken that project on consultancy basis. We are putting the managerial consultancy to that project. Our responsibility is to vet their bills, whatever bills are being generated by the contractor and based upon our vetting only the lenders are going to release the payment and as per the agreement, when the project will be completed, we will form a joint venture with the state of Sikkim and accordingly we will run that project. So these are two, three new things which I wanted to share with you. Besides that, we are getting one project in Bhutan also, that is Chamkharchu project of 770 MW. It has been cleared in principle by Ministry as well as from our Board also. We are expecting dates from Bhutan. The moment we get the date, we will go and sign the MOU for that purpose.

So far, Subansiri Lower Project is a major point. I think everybody must be interested in Subansiri. For Subansiri Lower Project, even though the government has appointed a POC (Project Oversight Committee) to give their recommendation regarding what are the areas left and whatever action being taken by NHPC, whether those things are being done at site, whether they are agreeing with that or not. The last meeting of POC had already taken place in the end of January or first week of February. We are expecting the result of report of that committee i.e. the last meeting of their POC. We are hopeful that a positive report will come and once that report comes I am hopeful that the project which is stopped since a long time will also start.

So after this initial opening, I invite all the analysts' friends for their queries. Our people are there, they will give reply to your queries. Thank you.





Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin with the question and answer

session. The first question is from Abhishek Puri from Deutsche Bank. Please proceed.

Abhishek Puri: Thank you and congratulations for good set of results sir. Couple of things, firstly, on the other

income, it is slightly lower this time versus last quarter Q2 as well as Q3 last year. It is about Rs. 200 odd crore versus Rs. 300 Crore in the last couple quarters that have been the run rate for us. So what

is the reason for the lower other income?

Jayant Kumar: Basically, the main share of other income comes from our Treasury deposit. Whatever we do the

deposit, whatever surplus fund is there in the deposit, and that whatever interest we are getting – what is happening is the flow of our deposit has been reduced and that is the reason the interest income on

deposits has gone down and that is the reason that on quarter-to-quarter basis the other income has

gone down.

Abhishek Puri: Okay, so interest income has gone down because the deposit rates have reduced?

Jayant Kumar: Deposit rates have reduced as well as the quantum of deposits has also come down.

Abhishek Puri: Sir, secondly, could you tell us about the debtors who are there right now on the balance sheet?

Jayant Kumar: See so far debtors are concerned; our only concern is J&K. As on December 15, it is Rs. 3352 Crore

Crore, although J&K is releasing money, it is not that it is not releasing money, but the quantum they are releasing is very poor, Rs. 50 Crore, Rs 40 Crore that too after a gap of two – three months but the

and our concern is only PDD J&K because J&K, there is a pile up of Rs. 1638 Crore. So this Rs. 1638

silver lining is that under UDAY scheme government of India has kept certain money in case of Jharkhand as well as J&K to meet the requirements of their debtors also. Normally the UDAY

scheme is basically to meet the bank's payment or bank's advances but in case of J&K, they have kept about Rs. 2500 Crore to meet their outstanding liability and they have to release this thing by

March 2016 it has to be liquidated. So the silver lining is that, J&K government has already claimed

the money from the government of India. So we are simply awaiting once they get money under

UDAY scheme and they have promised us also whatever dues are there, that will be cleared by them.

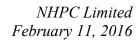
So the main concern of PDD has been answered by the provision in the UDAY scheme.

Abhishek Puri: So this entire Rs 2500 crs is being given to J&K or it is for other states also you are saying.

Jayant Kumar: Rs 2500 crore is only for J&K. J&K has other outstanding also beside NHPC but we have checked

with them because the majority share of power is going from NHPC, so they are telling that most of it about 80% - 90% of the debts of NHPC will be liquidated out of the proceeds of UDAY. So that takes

care of our concern and we are hopeful that by March all these amount will come.





Abhishek Puri:

Sir, my last question is on asset purchases. I think there is some article today that the private sector has approached you for selling out their project. So if you can provide some colour on that as to how you are thinking about it and ...

Jayant Kumar:

It is a fact that people are approaching us for purchasing their stressed asset. Even we have been approached by financial institutions. Banks also to come forward and take some of the stressed asset, in some cases. We are willing also, we want to purchase some assets also, there is no issue but the point is that the due diligence takes a lot of time and the position of the projects which they want to sell us. See, in Arunachal there are certain projects, that is very long project, the developer has made a lot of expenditure about that project but physically those effects are not there, so due diligence issues are there, certainly we will consider those things on case to case basis, on the merit basis and let us see how it is safe.

Abhishek Puri:

Thank you and all the best sir, I will join back for further questions.

Moderator:

Thank you. Our next question is from the line of Rahul Murkya from Batlivala and Karani Securities.

Please proceed.

this quarter?

Rahul Murkya:

Hi Sir, thanks for giving this opportunity. First, can you share what has been our incentive income for

Management:

Incentive for this quarter Secondary energy Rs. 30 Crore, UI charges Rs. 45 Crore and PAF based incentive Rs. 43 Crore.

Rahul Murkya:

And what has been the PAF in terms of percentage?

Arvind Garg:

85.9% for nine months and 78% for this quarter.

Rahul Murkya:

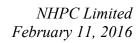
And second, what I have noticed is, this time around we have increased our dividend, so what has been the reason for this increase, is it the change in the guidelines that has led to this increase because it is roughly like 50% increase in the dividend per share this year.

Jayant Kumar:

See to be fair with you, certainly the guidelines of government is there, so there is no doubt about it and we have got new Independent Directors on our Board and our new Directors are in favour that we should increase the quantum of dividend and certainly government guideline is also a major factor.

Rahul Murkya:

So what will be the payout ratio for this year, because generally it has been in the range of 35%, so any guideline that is in share for the future years?





Jayant Kumar: No, guideline is in public domain, whatever the government guidelines is there in public domain but

in our case, certainly it will be more than 50% because earlier we used to follow religiously 30% of the net profit. Certainly since our interim dividend is quite high, so final dividends will go and it will

be more than 50%, certainly there is no doubt about it.

Rahul Murkya: So, one can expect a final dividend also?

Jayant Kumar: Certainly, it all depends. It is not ruled out, final dividend will come.

Rahul Murkya: And last one is, for one of the projects, 1200 MW Teesta iii where we are appointed as engineer, so

when do you see the commissioning date for this project, anything that is in share, though we are

engineer but being you are party to it, so if you can share anything on this front?

Arvind Garg: The first unit is likely to be commissioned by the year end, by December, one unit most likely would

be commissioned and there after balance two units can come.

Rahul Murkya: Sure, I will come back in the queue for more queries, thanks.

Moderator: Thank you. The next question is from the line of Deepak Agarwala from Elara Securities. Please

proceed.

Deepak Agarwala: Sir a couple of questions, first, can you share is there any one of income that we have booked for prior

period for four projects Baira Siul, Loktak which we have done in Q2.

Management: Basically what has happened that we have got tariff order in respect of five projects; we have got total

18 projects and we have filed our tariff petition. The tariff order in case of five power stations has

come and whatever you are asking that is the reason basically.

Deepak Agarwala: And secondly, how much Capex you have done till date and how much you expect in the balance

fourth quarter and guidelines for Capex for FY 2017, project-wise break up if you can share.

Jayant Kumar: Capex for FY2015 – 2016 has been around Rs. 3600 Crore that is our estimate, our plan and against

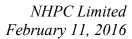
2017 our plan is of around Rs. 5200 Crore. Basically you have to understand that our pipeline of project is going down. We do not have much project to do and whatever projects are there, majority of work has already been done. So our Capex, unless and until we get new projects for execution, size

that plan we have incurred expenditure of about Rs. 2100 Crore till date and for next year 2016 -

of our Capex will not increase. The next in 2016 - 2017 whatever Rs. 5200 Crore we have kept considering that some new project will be taken up or if the government clears PID we can start

Teesta IV. Considering that we have kept a provision of Rs. 5200 Crore but it all depends upon how

much we get the project.





Deepak Agarwala: Okay, so you have not budgeted for Subansri as of now in FY2017.

Jayant Kumar: No, certainly it is budgeted. I told you that for 2016 – 2017 our estimate is around Rs. 5200 Crore,

Subansri is also there, but the quantum of Subansri out of Rs. 5200 Crore, around Rs. 1500 Crore we have kept for Subansri and if suppose Subansri work succeeds, work starts up, we can make more provisions also for that but presently to be on safer side we have kept about Rs. 1500 Crore for

Subansri in next financial year.

Deepak Agarwala: Okay and how much do you think you will spend on solar and wind because I understand your wind

project is expected to come on stream this quarter. So what is the status on the PPA and secondly, how you are going ahead in solar in Uttar Pradesh and Tamil Nadu where we already have bid and the

contractors are already there.

Jayant Kumar: You see, so far renewal is concerned, we have agreed with the Ministry that we will construct the

power station worth 430 MW during the next five years. So 250 MW was for solar and 180 MW was for wind. So, one wind power station has already come up in Jaisalmer. We are expecting that by the end of February or March the project will be commissioned. The indicative PPA has been given to us but final PPA with the Rajasthan State Electricity Board, Rajasthan discom has not been signed. We are expecting that by March, by the time it comes on stream that PPA will also be signed. I think the annual generation of that project is around 116 million units and the cost is somewhere Rs. 300 Crore. We have already spent around Rs. 235 Crore over that project and so that is about the wind energy. Solar, although we are making efforts, tangible things are not coming up. We have already made a joint venture in Uttar Pradesh, a contract has also been awarded. I do not know what is the status of

that contract. It is not yet awarded.

Management: Regarding Solar power project in UP, that will be developed through a joint venture between

UPNEDA and NHPC. PPA has not yet been signed, that JV Company has not yet awarded the work. As soon as PPA will be signed, they will award. PPA signing is in advanced stage. In connection with Tamil Nadu project, there also we have been awarded the work subject to signing of PPA. The ground

work has not yet been started as PPA signing is in process.

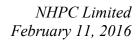
Deepak Agarwala: You are signing PPA in feed-in tariff mechanism, right?

Management: Yes, both in feed-in tariff mechanism.

Deepak Agarwala: So, what is the hurdle because even in last quarter we were thinking that the PPA would be signed so

what is the hurdle that you are facing because you have invited bids way back in June, is that bid still valid because the PV prices has gone down well below the June levels, so will you go for rebidding

then?





Management:

Actually in fact Tamil Nadu honourable High court put some stay order based on some petition of some private developers. That is why it was not signed. Now recently stay order has been vacated, we are passing through and this rate is very competitive we received, that is why we have not yet decided whether to cancel or leave it.

Moderator:

Thank you. The next question is from the line of Abhishek Puri from Deutsche Bank. Please proceed.

Abhishek Puri:

Yes sir, thank you for the opportunity again. Sir, Parbati II, if you can give us the status for that project?

Jayant Kumar:

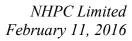
Parbati II last time I have told you that there is no visibility. Now visibility has come in Parbati II and I think Mr. Garg will tell you in detail regarding the progress about it.

Arvind Garg:

In Parbati II as you may be aware, that we were mainly struck up for the construction of the balance portion of the tunnel. There the TBM has to work. In fact after award of the work, we had to repair the TBM, the tunnel boring machine required more repair and after the repair we found that the sheer zone where we actually had a struck up that was to be treated and so we had to do lot of technical exercise and we could treat that only in October end and from November we started with the main excavation with the TBM. So, initially since we have still to cross the shear zone we were going slowly with lot of caution and now we are progressing correctly and so far we have done nearly 100 m of tunneling in the last two months and now we hope that from now onwards we will be going to get good progress in the TBM. Simultaneously, what we did, the other phase, because we have to join the tunnel and the balance portion was around 4800 m, so what we did, we changed the programme from the other end and we started with the excavation. We supported the contractor to arrange more machinery suitable for the construction of drilling and blasting methods and he has arranged and now we are progressing from both ends. So we feel that we are able to get good progress and we are hopeful to complete the project as planned now in December 2018.

Jayant Kumar:

Besides one thing I want to add. Parbati II is 800 MW and in Parbati area, lot of water is there from different naala. Different naalas are going there so our design is that besides the tunnel whatever main water is coming, we have to tap water from the different naalas also. I think about 200 MW of capacity can be generated out of water which is coming from the other naala besides tunnel. So what is our strategy, because we are little bit held up in tunnel, we have put all focus besides tunnel to develop all those naala. So, there, the work is comparatively easier. Our Board has given a lot of power, we have delegated some power to the local project HOP so those naalas can be developed at a faster rate because there is no issue in the E&M work. Our power station is okay, BHEL people had done a good job there. So once these naalas will be over, then I think there will be enough water to run at least one machine in the Parbati II. So although December 2018, what Garg sir has said that is





our target date but we may come earlier also at least with one unit of power station and we can generate power, that is our effort we are taking a lot of pain on this issue.

Abhishek Puri: Can you give us a break up of CWIP as well?

Arvind Garg: TLDP IV approx. Rs. 1900 Crore, Subansri approx Rs. 8000 Crore, Parbati II approx Rs. 5400 Crore

and Kishanganga approx Rs. 4350 Crore, total Rs. 19600 Crore.

Abhishek Puri: Thank you. My next question is on the new projects you talked about, TLDP IV and Kishanganga,

490MW Rs. 8000 crore will be the capitalization amount approximately which is almost like Rs. 16 crore per MW sir. How are we trying to bring down tariffs upfront which will be very high if we

capitalize the project at Rs. 16 crore?

Jayant Kumar: You see, that is a very burning issue. You have rightly asked this question, the tariff structure in

hydro is based upon the capital cost. If your capital cost is more your tariff will be more but in case of, especially in Kishanganga, we have got a leeway. The leeway is that, that difficulty you are giving upfront depreciation; depreciation to take care of your funding requirement. Kishanganga, about 80% of the loan is from the government subordinate debt from the government of India and that loan is at about 1% interest rate and repayment will start 11th year to 20th year. So we are doing a lot of exercise to bring down the tariff and I am hopeful that whatever size we are doing, we are talking with our beneficiaries also and I am hopeful this will click and so far Kishanganga we will be able to sell the tariff without making any dent on our return on equity but so far TLDP IV is concerned, TLDP IV is basically 100% power has to go to West Bengal and because they are not taking that 12% free power, so their energy is also more, little bit of energy is more. So there also we are trying, we are talking with them, we are doing some exercise on how to – because you see certainly tariff is high and now the market does not support it, so we have to do something so that we can able to sell our power. So we are already alive to these issues and we have discussed this matter in Board also and

accordingly we are taking the steps.

Abhishek Puri: Sir, is there any plan to reduce the equity component here? Power Grid has done that for one of the

projects where it was high cost.

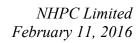
Jayant Kumar: You see, now in these two projects Capex equity cannot be reduced because you have already spent

those things. In future projects if we get, we will look into it.

Abhishek Puri: Sir, my last question is on the hydro purchase obligations. Are there any talks of bringing it because

now the tariff policy is already over, so is there any way to get the hydro purchase obligations done through and we have also been hearing that Ministry is looking to hive off from the Ministry of Power

to Ministry of Renewable Energy.





Jayant Kumar:

See, this we have not heard regarding the hiving off hydro to Ministry of Renewable energy. So far HPO is concerned, there was some discussion going on regarding HPO percent, it has not come in tariff policy, which means government has not agreed to that but there is a development. The development is that for calculating the RPO, Renewal Purchase Obligation of the state government, tariff policy has said that hydro will not be added for that purpose. Automatically there will be no RPO on Hydro, so that is a great saving to the state government and that keeps Hydro in line with the Renewal indirectly. So this is the state of what we understand and this is the state of what you have heard is come from the tariff policy. So for the other things you are asking regarding HPO or changing the Ministry that we are not aware about.

Abhishek Puri: Okay, so this was useful, thank you and all the best sir.

Moderator: The next question is from the line of Anuj Upadhyay from ICICI Securities. Please proceed.

Anuj Upadhyay: Thank you for the opportunity sir. Sir, just can you give me the break up for the debtors, you

mentioned for J&K it is Rs. 1638 Crore, what about for UP, Bengal, Punjab and BSES?

Management: PDD J&K Rs. 1638 Crore, UP Rs. 426 Crore, West Bengal Rs. 300 Crore, Punjab Rs. 227 Crore, for

BSES Yamuna Rs. 220 Crore.

Anuj Upadhyay: And just to confirm, generation for the quarter was 4070 MU whereas the sales 3335 MU, am I right

on this?

Management: What is your query, repeat?

Anuj Upadhyay: The generation figure for the Q3 was at 4070 MU and sales close to 3335 MU.

Jayant Kumar: Yes, generation is 4071 MU and sales are Rs. 1440 Crore.

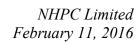
Anuj Upadhyay: No I am talking about the unit.

Jayant Kumar: Yes unit is 4070 MU.

Anuj Upadhyay: And sales sir?

Management: Unit in terms of value or?

Jayant Kumar: Rs. 3335 MU.





Moderator: Thank you. As there are not further questions, I now hand the conference over to Mr. Deepak

Agarwala for closing remarks, over to you.

Deepak Agarwala: Sir, I have one last question. Can you comment on what is the way forward in terms of your inorganic

growth, you lightly touched upon that you are willing to acquire some assets but what will be your criteria, like will you be okay for the projects which are half under construction or which are still at the DPR stage. What guidelines has the Board given on what kind of assets you are looking to

acquire.

Jayant Kumar: See our Board has already taken a decision that NHPC will look into brownfield project or they can

acquire the projects which has been done by different developers but all these things depend on what opportunity we will get, what type of offer is coming to us and how able the developer of those projects are there in selling their assets. So those things are all subjective, so it will all depend, we are still open to that but actual decision will be depending on the case to case manner. I cannot give you any timeline or anything that yes, this will be done in that way. It all depends upon the opportunity

and offer what we will be getting.

Deepak Agarwala: And sir last thing what is the approximate cash and debt level as on December 31?

Jayant Kumar: Rs. 6300 Crore

Deepak Agarwala: And debt?

Jayant Kumar: Approx Rs. 20,500 Crore Deepak.

Deepak Agarwala: So we thank Mr. Kumar and his team for giving us an opportunity to host this conference call. We

also thank all the participants especially investors and the analysts for joining this call. Over to you sir

for any closing comments.

Jayant Kumar: Thank you very much. You see the feedback if we get from analysts that is a guideline for us and we

welcome all those feedbacks, and anybody if have any query they can refer to our investor cell and

thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Elara Securities that concludes today's

conference call. Thank you for joining us and you may now disconnect your lines.