NHPC Limited
Q2 & H1 FY2018
Earnings Conference Call

November 13, 2017

Management: **Mr. Balraj Joshi, Chairman and Managing Director, NHPC Limited**
Mr. Ratish Kumar, Director (Projects), NHPC Limited
Mr. Nikhil Kumar Jain, Director (Personnel), NHPC Limited
Mr. Mahesh Kumar Mittal, Director (Finance), NHPC Limited

Analyst: **Mr. Deepak Agrawala – Elara Securities India Private Limited**

Moderator: Ladies and gentlemen good day and welcome to the NHPC Limited Q2 FY2018 Earnings Conference Call hosted by Elara Securities Private Limited. 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. I now hand the conference over to Mr. Deepak Agarwala from Elara Securities Private Limited. Thank you and over to you Sir!

Deepak Agarwala: Thanks Vikram. Good morning everyone. On behalf of Elara Securities, we welcome you all for the Q2 and H1 FY2018 conference call of NHPC Limited. I take this opportunity to welcome the management of NHPC represented by Mr. Balraj Joshi, Chairman and Managing Director, Mr. Ratish Kumar, Director - Projects, Mr. Nikhil Kumar Jain, Director – Personnel, Mr. Mahesh Kumar Mittal, Director - Finance and their entire team. We will begin the call with a brief overview by the Management followed by a Q&A session. I will hand over the call to Mr. Joshi for his opening remarks, over to you Sir!

Balraj Joshi: Well, thank you and warm welcome to all of you. We have already declared our results about which our Director- Finance will speak in detail and as far as the machine availability is concerned, our plants have been doing very well except for two power stations in West Bengal, which had to be shut down for about two months time because of the Gorkha Janmukti Morcha Strike going on there and later on we have of course restarted these power stations also, but by this time, the monsoon had receded and generation which we could have otherwise produced have missed out, but nevertheless our Director - Finance will tell all the details. So I will just hand over to Mr. Mittal.

M K Mittal: Thank you CMD Sir. I am making a brief presentation on the financial and other highlights of the company. Dear friends as you know, the board of NHPC has adopted the half yearly accounts ending September 30, 2017 in its meeting held on November 9, 2017 and the same have already been communicated to the stock exchanges. Brief highlights and important developments in the company are as under:

During current half year, our power stations have achieved generation of 17,350 MUs vis-à-vis 16,505 MUs generated in the corresponding period of the previous year, which is 5% higher. The generation has surpassed the excellent MoU target of 16,863 MUs. For the second quarter ended September 30, 2017, power stations have achieved generation of 8,801 MUs as against 8,940 MUs generated in the corresponding period, which is about 1.5% lower. Lower generation is mainly due to Gorkha Janmukti Morcha agitation, which resulted in shut down of TLDP-III and TLDP-IV Power Stations for about two months during July to September 2017.

During current half year, our two hydropower stations namely Teesta-V and Nimoo-Bazgo have achieved highest ever monthly generation in the month of September 2017 since their commissioning. Our Plant Availability Factor (PAF) for the current half year stands at 95.6% against the corresponding period PAF of 93.8%. For the second quarter September 2017, power stations have achieved PAF of 94.08% against the corresponding previous year period plant availability factor of 95.42%. For the half year ended September 30, 2017, company has achieved sales of Rs.4,297 Crores as against Rs. 4,545 Crores in the corresponding previous period, which is about 5% lower. During Q2 FY2018, we have recorded sales of Rs. 1,971 Crores as against Rs. 2,361 Crores during corresponding previous period, which is about 16.5% lower. Decrease in sales is mainly due to reversal of unbilled revenue of Rs. 276 Crores for the period from April 2014 to June 2017 in respect of Parbati-III on account of revised lower estimated tariff and impact of shutdown of TLDP-III and TLDP-IV by Rs. 137 Crores due to agitation by Gorkhaland supporters. Profit earned during half year i.e. up to September 2017 has been Rs. 1,910 Crores vis-à-vis Rs. 2,433 Crores of the corresponding period. The Q2 profit is Rs. 1,043 Crores as against Rs. 1,567 Crores during corresponding period. Profit is down by about 21% during first half and about 33% during Q2 of the current fiscal year compared to the corresponding period. This is primarily, (a) due to accounting of late payment surcharge income of Rs.483 Crores during half year ended FY2017 while only Rs. 3 Crores has been accounted during the current half. (b) Reduction in interest income on short-term investment of surplus cash from Rs. 210 Crores in previous year to Rs. 55 Crores in the current half as the surplus cash was utilized for buyback of shares and dividend payments. (c) Reversal of unbilled revenue of Parbati-III amounting to Rs. 276 Crores. (d) Impact of shutdown TLDP-IIII and TLDP-IV by Rs. 137 Crores. During half year FY2018, we have earned PAF based incentive of Rs. 316 Crores, deviation charges Rs. 89 Crores, and revenue from secondary energy Rs.21 Crores, which is aggregating Rs. 426 Crores as against Rs. 370 Crores, which we received last year which includes incentive of Rs. 279 Crores, deviation charges of Rs. 89 Crores, and revenue from secondary energy of Rs. 2 Crore. So there is an increase of 15% on this front.

Capex during the first half of the current year was Rs. 1,425 Crores as against Rs. 1,386 Crores in the corresponding period of the previous year. Employee cost in the first half of the current year was Rs. 765 Crores as against Rs. 652 Crores in the corresponding period of the previous year. Increase in the employees cost is because of obligation of the company towards pay revision benefits which are payable from 01/01/2017. There is a saving of Rs. 78 Crores in the interest and finance cost in the first half of the current year as compared to the corresponding period of the last year. This is because of repayment of loans resulting in savings for Rs. 46 Crores and swapping of loans with the cheaper debt resulting in saving of Rs. 32 Crores. We have received dividend of Rs. 391 Crores from our subsidiary NHDC for FY'17 as against Rs. 204 Crores last year. Despite disturbances in J&K, we are hopeful to commission the unit I and II of Kishanganga project by January 2018 and Unit-III by February 2018. The anticipated cost of this project stands at Rs. 5,882 Crores out of which we have already deployed Rs. 5,074 Crores till October 2017. Power of this project has already been tied up with Uttar Pradesh and Chhattisgarh. Construction work at 800 MW Parbati-II Project is under progress and we are expecting to commission one unit of 200 MW in January 2018 and remaining three units by FY2019. The anticipated cost of the project is Rs. 8,399 Crores of which we have already spent Rs. 6,530 Crores till October 2017. So far Subansiri (Lower) project is concerned, NHPC is in constant touch with Central Government and State Government of Assam for immediate resumption of the construction activities of the project and the latest development of NGT order dated October 16, 2017 has directed MoEF & CC for constitution of a committee of three expert members within one month from the date of the order. The committee shall technically examine the reports submitted by various committees including the one submitted by POC etc. The committee shall submit its report with its recommendations to MoEF within three months from the date of its constitution. The MoEF will then appraise the report within 60 days and pronounce its decision. The revised cost of the project now stands at Rs. 17,435 Crores out of which we have incurred Rs. 9,519 Crores till Oct 2017. Status of clearances of our forthcoming projects is as below:

Approval of the pre-investment activities in respect of Tawang-II Project (800 MW) was accorded by MoP on July 28, 2016 and FRA compliance is underway. Pre-PIB clearance for Teesta-IV hydroelectric project (520 MW) in Sikkim has been received and FRA activities at site are going on. PIB process has also been initiated. In respect of Dibang Multipurpose Project (2880 MW), Ministry of Environment, Forest, and Climate Change Government of India has accorded forest clearance stage 1 and environmental clearance on April 15 2015 and May 19, 2015 respectively. Final DPR was submitted to CEA on June 9, 2017 and concurrence was accorded by CEA on September 18, 2017, draft PIB memo for implementation of the project has been submitted to MoP on October 23, 2017.

We have taken up renovation and modernization of Baira Siul and Loktak power stations. Baira Siul power station has completed its useful life of 35 years in March 2017. Loktak power station shall be completing its useful life of 35 years in June 2018. Major highlights of the company during half year ended September 30, 2017 include that we have signed MoU with the Government of India and Ministry of Power on June 20, 2017 which lays down the targets of the company for FY2017-2018. On realization front, NHPC has received Rs. 3,723 Crores from beneficiaries against the sale of energy during half year 2017-2018 compared to Rs. 3,103 Crores in the corresponding period of the previous year. Total receivables on account of sale of energy stands at Rs. 2,108 crores as on September 30, 2017 as against Rs. 2,276 crores during the corresponding period of the previous year.

On renewable energy front, we have awarded EPC contract for 50 MW Solar Power Project in Tamil Nadu to M/s Larson and Turbo. We expect to commission the project during the current financial year. This is all from our side. Now the forum is open for question and answer. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Amit Golchha from HDFC Mutual Fund. Please go ahead.

Amit Golchha: Sir, Kishanganga project PPA, you mentioned that, you have signed it with UP and Chhattisgarh. Sir, UP PPA is the new development?

Balraj Joshi: Yes. We had PPAs, but those were very old and the beneficiaries were not ready to go ahead with those PPAs. So Ministry of Power wanted us to renegotiate the PPAs and we have now worked out two PPAs for the entire power, one with UP 200 MW and 100 MW with Chhattisgarh and the rest of 30 MW is roughly free power.

Amit Golchha: In case of Parbati-III you reversed some revenue, so what is the basis of that?

M K Mittal: Parbati-III project is 520 MW and three units came during March 2014 and one unit came during June 2014 and the entire design energy is not coming at the moment because we have not commissioned Parbati-II. The water of Parbati-II is also flowing to Parbati-III and then we can achieve the full design energy. On an ad hoc basis, the CERC allowed us a tariff of Rs. 5.48 per unit during June 2014. Subsequently when the entire project got commissioned, we worked out the tariff to be Rs. 8.86 per unit and we filed a tariff petition with CERC as per the CERC norms. Considering this tariff, we factored the unbilled revenue in our books of accounts and which was to the tune of Rs.276 Crores starting from April 2014 till June 2017. When this petition was heard by CERC during March 2017, they asked us to work out a mutual consent or mutual discussion with your beneficiary states, which are almost all the nine states in Northern grid and when we spoke to them, they said that Rs. 8.86 per unit is very high, we cannot accept the tariff. So during the second quarter FY'18, we went to CERC saying to allow us to continue to charge the existing tariff because the beneficiaries are not agreeing and existing tariff is also a little on the higher side given the current market scenario and that may be allowed to continue because that we are charging for the last more than three years at Rs. 5.48 per unit. So we have conceeded before CERC that Rs. 8.86 per unit is not a viable or a feasible tariff and considering that the management has considered for a lower tariff, we have reversed the unbilled revenue which was already being provided in the books of accounts on quarterly basis.

Amit Golchha: Right Sir and so you are recognizing cost of all four units in the books, but the tariff or the revenue is for how many units now?

M K Mittal: For all four units, the full tariff comes to Rs. 8.86 per unit at the moment as I mentioned including return on equity at the rate of 16%, but we are charging Rs. 5.48 per unit only to our beneficiaries and the rest will remain as a short recovery of the revenue because we are just generating roughly 700 MUs as against the potential energy generation of 1978 MUs. So once Parbati-II comes in, we will have a full generation of 1978 MUs. At the same time, we will have to adhere with 700 MU generation.

Amit Golchha: Once the Parbati-II comes in, the full retrospective realization of all the revenue will be…?

M K Mittal: No, it will be prospective only and not retrospective because generation will happen when it comes.

Amit Golchha: What I am saying that is that today for let us say Parbati-III capital cost you have recognized capital cost fully?

Balraj Joshi: Yes.

Amit Golchha: You are recognizing interest and depreciation on that?

M K Mittal: Yes absolutely.

Amit Golchha: For last three years and let us say almost for next one and a half years you will be under recovering on Parbati-III?

Balraj Joshi: Absolutely.

Amit Golchha: So almost five years under recovery on capital cost, how will that we adjusted in the tariffs?

Balraj Joshi: There is no way out actually .If we charge the full tariff then it comes to Rs. 8.86 per unit which is not acceptable to our beneficiaries. Of course, CERC cannot say no to that tariff because i.e. as per the CERC norms only, but at the same time they want that the customer should be ready to buy and they should be ready to pay the tariff and that is why they wanted that you get this tariff accepted from your beneficiaries, we will allow it and because we could not get our beneficiaries agreeable, we have gone for a reasonable tariff and which is a logical tariff and this is interim loss and we cannot do anything at the moment.

Amit Golchha: What is the recurring loss on this going forward in 2Q till June 2017?

M K Mittal: last quarter we provided around Rs. 30 Crore. So roughly in four quarters, the loss may be around Rs. 110 to Rs. 120 Crore. Basically it is as good as foregoing return on equity, just recovering our real cost. We are not making any profit on this project at the moment. We are just recovering our real cost.

Amit Golchha: Okay, so profit from this project will start once Parbati-II commissioned?

M K Mittal: Absolutely right.

Amit Golchha: Sir, if you can brief us on which are the projects which will come into under constructions, pipeline going forward and what could be the timeline?

Balraj Joshi: Well we have Teesta-IV projects in Sikkim, which is 520 MW and it is quite at an advanced stage and the FRA is going on and as DF has already pointed out that pre investment activity also have been approved by the Government of India that is one project we are actually looking at and hopefully within one year, we should be able to start construction of that project subject to of course FRA clearance and then there is a Tawang-II 800 MW Project in Arunachal Pradesh, that is another project which we should look forward to for construction let us say again a time span of one and one and a half years. Other projects are there on which we are working for survey investigations, other activity, but as far as the construction is concerned, I clearly look at Teesta-IV and Tawang-II. There is another project called Kotli Bhel 1A in Uttarakhand, which as you might know that was stopped by Supreme Court following the 2013 floods of Uttarakhand. There have been very positive response from their part also and MoEF has to now submit a joint affidavit in the Supreme Court and we are hopeful that that project also will be cleared just say within one year. So we are very actively looking forward for all these three projects, which I mentioned that is Teesta-IV, Tawang-II and Kotli Bhel 1A.

Amit Golchha: Okay and Sir lastly on Subansiri currently only the maintenance activities are going on, the dam protection activity?

Balraj Joshi: Maintenance activity means it is basically the protection works. Now let me clarify that we have made very large cuts in the rock mass and we have also constructed almost 80% of the tunnels, which we have in this project. All these tunnels need to be supported by concrete and by rock cladding, which is basically a part of the work only, that is allowed by the court, so we are going ahead with those works i.e. protection works essentially since no concreting has been done on that main dam itself, but ultimately these protection works are going to form a part of work only. Apart from that, the maintenance of the equipment which has been received to the extent of 97% that is also going on because there are quite sensitive moisture equipments and some kind of protection and maintenance is required to be done on them that is going on.

Amit Golchha: If NGT order stayed on, this construction would not have been there. Would the activities have been significantly different from what you are doing today or probably they would have been similar?

Balraj Joshi: We would have started placement of the concrete in the main concrete dam, which is not being done as of now and also the construction of the power house and erection of machines, etc., would have been started that is not being done, but the basic work, for example the tunnel excavation, the invert protection, the concreting of the tunnel that is allowed and that can be done and is being done. There was a contractor namely M/s L&T who had stopped the work in power house area and we are now looking forward for appointing a new contractor to carry out that work, but meantime we are carrying out some small protection works departmentally by local contractors.

Amit Golchha: That you are saying for power house?

Balraj Joshi: Yes power house and the tunnels also.

Amit Golchha: Okay and Sir, so essentially after the clearance from MoEF if it comes in the next six months, then what kind of timeline do you expect to commission this?

Balraj Joshi: We have always said that the moment we are allowed full-fledged activities on the project, we will be completing this project within four years' time after resumption of the works.

Amit Golchha: Right. Thank you very much Sir.

Moderator: Thank you Sir. We have a next question from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Good afternoon Sir. There was a proposal, which we have been hearing about for a long time that there is a proposal to subsidize the stalled projects like Subansiri and the total amount was 163 billion where is the proposal right now and which are the projects we are looking to subsidize given that some of our projects has seen a lot of cost overrun especially if we can utilize some amount of Parbati-III to reduce our project cost, can you please update on that?

M K Mittal: There is a draft hydro policy, which is under consideration with the Government of India and that policy is yet to be finalized or yet to be approved, but in that hydro policy, which we have seen there is a provision for 4% interest subvention where the Government of India will fund to the tune of Rs.16000 to 17,000 Crores approx. for the stalled hydro projects in which three hydro projects of the company also comes in. There is a list of around 40 projects, which include Parbati-II, Kishanganga and Subansiri Project. So if that hydro policy comes, we will have a interest subvention for the construction period as well as going forward to the project to be commissioned in the next five years and the cost may come down drastically which will lower down the tariff and the tariffs will look attractive and competitive. But it is for the government to take a final call on that and we are waiting for the policy to come.

Mohit Kumar: This Policy is restricted to only three of our power plant; it cannot be utilized for the other power plants, is it so?

M K Mittal: Other power plants will also come up if those come up in the next five years, it will apply to them also, but at the moment the projects, which are under construction are listed in that policy and NHPC has three projects, which are under construction and all three are listed there in. But if we commission some more projects in the next five years, then it will also come in that policy.

Mohit Kumar: Sir joined the call a little late, so can you please explain that why the profit was down, you listed four reasons, can you please reiterate that?

M K Mittal: Sure. If you see broadly, there are four reasons for the decline in our net profit from Rs. 2,433 Crores to Rs. 1,910 Crores. One I mentioned that last year we received a late payment surcharge primarily from J&K for Rs. 483 Crores because we realized some dues from J&K under UDAY scheme and once the dues were cleared we got Rs. 483 Crores odd as a surcharge. This year we have received only Rs.3 Crores, so roughly Rs. 480 Crores is the biggest hit in this area alone. Secondly, last year we had almost Rs. 5000 Crores in our FD as a surplus cash on which we were getting some interest and we received Rs. 210 Crores as interest last year in the first half. Because that money is utilized, we could receive only Rs. 55 Crores this year. So roughly Rs. 155 Crores is the hit on this account. Thirdly, there is a reversal of the unbilled revenue to the extent of Rs. 276 Crores in respect of Parbati-III. This revenue which was treated as a unbilled revenue because the tariff was subject to revision from 2014 onwards till now and we have now conceeded in CERC that we will go with a lower tariff because of non-acceptance of the higher tariff by the beneficiary states and that is why we had to reverse this unbilled revenue of Rs. 276 Crores and fourthly, our TLDP-III and TLDP-IV were down due to Gorkhaland Movement in West Bengal and we could not bill the revenue of Rs. 137 Crores during July to September because of the shutdown of our two power stations. So these are broadly the four reasons, which have resulted in lower profit, although the impact should have been higher, but we have minimized it because of better generation, better plant availability factor and some dividend which we have received from our subsidiary, which is Rs. 390 Crores as against some Rs. 200 Crores last year.

Mohit Kumar: Thank you Sir.

Moderator: Thank you Sir. We have a next question from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: Thank you for the opportunity. Sir one on the Parbati-III reversal, when do we expect to get the recovery, is it with the first unit from January 2018 or when the full generation starts from the fourth unit?

M K Mittal: The recovery of the full tariff will happen only after full commissioning of Parbati-II.

Abhishek Puri: When do we expect that Sir?

Balraj Joshi: We are expecting by end of FY2019.

Abhishek Puri: So March 2019?

M K Mittal: March 2019 that we are projecting at the moment. If the project Parbati-II gets commissioned fully by that time then we will have full water flow from Parbati-II to Parbati-III and we can increase our generation from existing 700 MUs to 1978 MUs and then we will have a lower tariff of course and we will have a full profit from this project.

Abhishek Puri: In that scenario what will be your tariff Sir, so if I work backwards I am getting a number of about Rs. 3.2 per unit or something for Parbati-III tariff in case the generation goes up to 1900 units?

M K Mittal: Around Rs.3 per unit.

Abhishek Puri: So which means for the next two quarters and next four quarters of next year, you will have that under recovery continuing?

Balraj Joshi: Under recovery continuing with a higher tariff also. Currently we are billing at Rs. 5.48 per unit that we are continuing and that is under recovery because of lower generation.

Abhishek Puri: Just to clarify, this is a 38% reduction in tariff that you have taken and that is equivalent to the return on equity because I am looking at the other projects, is ROE typically is about 35% of the overall tariff?

M K Mittal: As I mentioned in my presentation that we are going to recover the cost only in the interim period. We will not be recovering any profit.

Abhishek Puri: Understood, second question on the Teesta projects I understand you were not able to bill this, this is kind of a force majeure event and would you be able to recover this under any insurance contracts or under the tariffs or claim for the PAF?

M K Mittal: Although we have a mega policy, but such events are not covered under the mega policy and there is no such insurance product available at the moment in the market, which can cover such kind of risk. So it is not recoverable.

Abhishek Puri: In the second half of this year when the water availability is lower, if you have higher PAF will you be able to recover fixed cost?

M K Mittal: A part of it.

Abhishek Puri: Got it and lastly on Subansiri now this committee will be formed by MoEF, will they be taking the entire study afresh or is it they will again ponder upon the same studies that have been done?

Balraj Joshi: Actually, accordingly to NGT order, the committee has to study the already available reports & records. Of course they have also allowed the committee to have consultation with the other experts, international experts and national experts also. So broadly speaking, we hope that within given time we will be able to convince them that all the studies which were required they have already been done and no new studies are required.

Abhishek Puri: Lastly if I may ask on the hydro policy I understand it is awaited. It was proposed to the cabinet in the month of July and we are sitting in November now. What are the exact considerations that have been stuck, is there any cost approval related concerns because Rs. 16,000 Crores has to be provided in the budget for this activity over the next four years obviously?

Balraj Joshi: Yes I think that is certainly point of discussion with the government and ultimately government has to come out clear from where they are going to fund this Rs. 16,000 Crores. Otherwise the other issues like RPO obligations then whether it should be extended to the hydro in full or part these have been the points of the discussion and I think government has already made up its mind and we are also waiting because ultimately they have to take a decision. So we are also waiting, but definitely after the hydro policy is announced hydro sector is going to get a boost.

Abhishek Puri: I am just trying to understand where exactly is that stuck. Is it only on the financing side or is it related to some technical points as well like you mentioned on the RPO side?

M K Mittal: We have just given our inputs, so right now we cannot comment on behalf of the government.

Abhishek Puri: Understood Sir. That is helpful. Thank you so much and all the best.

Moderator: Thank you Sir. We have a next question from the line of Prashant Shivsagar from Unived Corporate Research. Please go ahead.

Prashant Shivsagar: Good afternoon Sir. I just wanted to ask you about the Dibang Hydroelectric Project. You had mentioned about the clearances received for the project. Can you give us the roadmap of which further clearances are required to be received on the project and is there any timeframe or…?

Balraj Joshi: Principally, we have to seek the governmental approval for the investment that is the PIB and followed by CCEA but before the PIB, the forest clearances i.e. FC1, FC2 and governmental clearance everything should be in our hand. Now, we are supposed to deposit a large amount., after which they will be issuing us the FC2, but for depositing that amount of money, we need to have a pre-investment approval. So, we had actually submitted our pre-investment approval to the government. The government has stated that since it is going to be billed, you come out with a full proposal, which also has been sent by us now, I think within a time span of one and one and a half years these should be approved after which it will take about two years to construct the infrastructure part of the project. So we are looking at the start of the actual construction activities in a span of about three, three and a half years.

Prashant Shivsagar: Second question Sir there was newspaper articles and various discussions on the private sector projects been of the Northeast been taken over by NHPC. Is there any progress on that or is it just at the discussion stage?

Balraj Joshi: We are having discussions, let us say Northeast specifically I would mention the Sikkim projects, they were certainly offered to us and we actually carried out a due diligence for this project. But considering the fact that they were done quite back in time and it has accommodated a large amount of IDC, so we have requested these project proponents, also the Sikkim Government to take up the IDC part and also get the assets evaluated as on today's date. So we are still open to that, we have made this offer to them quite a number of times, but the point is that who is going to write off that accumulated IDC. So this is an issue which is going on and this is going to happen for other projects also, which are in Northeast. They are stuck up because of fund constraints for that workforce but we are quite open to that and we said that with the current date's valuation if the projects are handed over to us we are ready to look at that seriously.

Prashant Shivsagar: So they are still on the discussion, no progress further has been made on that?

Balraj Joshi: No. After that there is no progress made actually on the ground. But there have been quite fruitful discussions let us say about three months ago also. So we are awaiting project proponent's viewpoint as well as the Sikkim Governments viewpoint also.

Prashant Shivsagar: Thank you Sir.

Moderator: Thank you Sir. We have a next question from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.

Dhruv Muchhal: Thank you. My question was on Parbati, the revenue reversal. You said that the reversal is because the DISCOMs were not ready to accept the higher tariffs, but if you see a lot of other plants also have much higher tariff and even Kishanganga probably will be higher around Rs. 6 or Rs. 7 plus per unit. So the higher tariff has not been an issue in the past. By doing this renegotiation, are we setting a precondition that we are ready for renegotiation even for higher future tariffs, or it is just because the water availability was an issue in this plant that is why you have done it?

Balraj Joshi: That is the key reason that the design energy of this project is 700 MUs whereas we could have design energy of 1977 MUs in case of full availability of water. So since the design energy currently we are operating at almost one third, so we had to concede on those grounds.

M K Mittal: I would add here that we are following the CERC norms. But coming to your question specifically, there is no case for other projects to negotiate the tariff. The beneficiaries have said that we are not going to afford that kind of tariff, which we have projected to Rs.8.86 per unit. But that does not mean necessarily that we are going to renegotiate the tariffs of other projects and Parbati-III also we have agreed because the upstream project is also being done by us only. Had it been some other, probably we would not have relented.

Dhruv Muchhal: Sure is there a provision in our contracts that the contracts are renegotiated every five years although the PPA is for 35 years, the contractor renegotiated the pricing, renegotiated every five years?

M K Mittal: No, operational PPAs are not renegotiated. We have the PPAs for certain time. Some PPAs are the entire life of the project and there is no renegotiation. The rate is fixed by the CERC on every block for five years and whatever tariff is fixed that applies to such PPAs. Of course we will have to renegotiate the PPA for getting extension and we are extending the PPAs wherever it was for five years and we have renewed it for a further period of the full life of the project. We have negotiated saying that the tariff is as per the CERC norms will be applicable or as fixed by the CERC will be applicable. The PPA does not contain tariff. It only has provision that the tariff as fixed by the CERC would apply.

Dhruv Muchhal: The last question there is a lot of focus on hydro generation helping grids in terms of your peaking load and all those things, is there any way plants, which are under PPA can benefit from it in terms of say higher secondary charges or high incentives for supplying during peaking load is there some thought behind it or there is nothing I mean the PPA plant will not benefit because of it?

Balraj Joshi: Right now the discussions are going on & as per that the time of day tariff has not yet been actually fixed. So once the time of the day tariff comes into picture, definitely we are going to have, as far as the grid stability is concerned. So discussions are going on, but right now we cannot say that whether this is going to be very soon, but unless that is done our existing projects are not going to get benefit from it.

Janardan Choudhary: Just to add, it is being discussed in CERC and the services will be costing and benefit will be passed on to the hydro developers the entire services which is provided by the hydro generators.

Dhruv Muchhal: Generators you mean NHPC will benefit?

M K Mittal: Yes.

Dhruv Muchhal: So what is the scale can it be huge or it is relatively small if you have done some preliminary assessment?

Balraj Joshi: This is still under discussion in the CERC and the other forum. We really cannot say that how much will be the benefit which will be going to the hydro sector and to NHPC. So let us wait and see for that.

Dhruv Muchhal: Thank you so much. Thank you.

Moderator: Thank you. We have the next question from Amit Golchha from HDFC Mutual Fund. Please go ahead.

Amit Golchha: Sir in case Parbati-III have we reduced the depreciation rates also?

M K Mittal: No, we are maintaining the depreciation rates as per CERC. There is no reduction in the depreciation rates.

Amit Golchha: Sir given that your tariffs post the commissioning of Parbati-II are relatively lower and so there could have been understanding based on this in terms of you capitalized part of the ROE is already forgone and you reduce the depreciation in initial five years and then expense both of them after the start of the full COD?

M K Mittal: See, we have to prepare our accounts as per the Electricity Act as well as the Company's Act to the extent it is not overriding with the Electricity Act 2003. When we say Electricity Act we will have to see CERC also. CERC regulations are a part of the Electricity Act and the CERC regulations provide for a certain rate of depreciation, so we will have to book the prescribed rate of depreciation in the books of accounts even though for tariff purpose we can reduce the depreciation rate.

Amit Golchha: I am saying for tariff only Sir.

M K Mittal: We have reduced, when we are charging Rs. 5.48 per unit, which is basically reduced tariff, compromised tariff, otherwise a full tariff comes to Rs. 8.86 per unit.

Amit Golchha: Correct Sir, but what you are saying essentially is the difference between these two numbers is largely ROE, but otherwise if you had reduced the depreciation in your tariff, the difference would have been partly depreciation and partly ROE?

M K Mittal: It does not make any difference in our book profit because in the books the depreciation will go at full rate as per the CERC norms, we cannot charge lower depreciation.

Amit Golchha: But cash flow available to you in the future will be much higher Sir, so the value of the project will go up. If you reduce depreciation and so essentially the difference is a portion to partly ROE and partly depreciation in tariff?

Balraj Joshi: That is not feasible at the moment because we filed our tariff petition during 2014 and Rs. 5.48 per unit was allowed at that time with a full rate of depreciation, now it cannot be reduced. We will charge the same tariff which was allowed by CERC.

Amit Golchha: Who are power distributors who are linked to CERC? What they do generally in this kind of a case? Is that they decrease inventory assets, which are recoverable in future? So the difference in the tariff, which you are right now under recovering for five years, this can be allowed by CERC, it is perfectly within the CERC norm according to me in future, but what I am trying to understand is that is there any discussion regarding this which CERC?

M K Mittal: Certainly that aspect we will take into account while going forward for our tariff for the next block of five years and during hearing also we will keep this point into our discussion and regulatory asset is certainly one solution, which can be taken care of and we will put for this point during our hearing on this tariff petition for Parbati-III maybe next time.

Amit Golchha: Right Sir and Sir this Parbati-II which will be commissioning in January, how the billing for this will happen, it will be similar to Parbati-III, so you will have commissioned whole of your power house of lot of other capitalization will be done?

Balraj Joshi: No, see we are commissioning 200 MW one unit only and we are still collecting and compiling the course data of the asset and once we compile we will work out the tariff.

Amit Golchha: The tariff, because of capitalization will be very high for one unit.

Balraj Joshi: No, we will have to see, let us wait and see because entire plant is not being commissioned. So the entire capitalization will not be happening in January 2018, but it will be on pro-rata basis for one unit. So we will see that how much is the capitalization, which is essential from accounting point of view and finally it has to be accepted by CERC.

Moderator: Thank you. We have the next question from line of Ashish Shah from Goldman Sachs. Please go ahead.

Ashish Shah: As I understand on Parbati, our design energy for Parbati-III is 700 and now we are expecting it to increase to 1978 MUs, so would it involve any additional cost or it is just the water flow?

Balraj Joshi: Actually the point is that this plant was designed for 1977 MUs only with all the four units. The issue is that, project is already completed, but the water which was supposed to be augmented by a Parbati-II is not available. That is why with the available water, only 701 MUs can be generated. So no new cost is required to be incurred even for 1977 MUs. Only the upstream project was to be commissioned and hence once that particular project starts discharging water into the reservoir & the existing installation will start generating 1977 MUs.

Ashish Shah: Got it. Sir and this will not impact our Parbati-II design generation, right, which is around 3900 units?

Balraj Joshi: Not at all.

Ashish Shah: Okay. We had no incentives on higher PAF and obviously we are not generating that but after the commissioning of Parbati-II, would be the allowed for that incentives and secondary charges?

Balraj Joshi: Of course yes.

Ashish Shah: Even for Parbati-III.

Balraj Joshi: Yes, normal realization will take course.

Ashish Shah: Okay and I just missed out the dividend amount, if you can just help me with that?

M K Mittal: NHPC share of dividend from NHDC we received this year is Rs.390 Crores.

Ashish Shah: Thanks a lot.

Moderator: Thank you Sir. We have a next question from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Thanks for the opportunity once again. Sir just a couple of clarifications has the committee the Subansiri have they started the meetings?

Balraj Joshi: No, the committee is yet to be formed actually. The NGT had given a time of one month, which is yet to lapse, and the committee has not yet been formed.

Mohit Kumar: So once the committee is formed it will take another three months to submit the report post that MoEF will take another two months, so totally five months, am I right?

Balraj Joshi: Yes, that is correct.

Mohit Kumar: Okay Sir and second question regarding your receivables, receivable has gone up from the March end, how much of the receivables beyond two months out of this?

Balraj Joshi: Pardon, how much?

Mohit Kumar: How much the receivable is more than 60 days?

M K Mittal: Yes, currently you see our total receivables as on 30th Sep 2017 is Rs.2108 Crore out of which Rs.927 Crore pertains to more than 60 days.

Mohit Kumar: I can assume that most of it is from the Jammu and Kashmir?

M K Mittal: Yes, mostly it is from J&K and some amount from UP also.

Mohit Kumar: Okay Sir. Thank you Sir.

Moderator: Thank you Sir. We have a next question from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: Thank you Sir. Sir can you give us a break up of the debtors from J&K and UP?

M K Mittal: **S**ee if you asked me the total debtors out of sale of energy, which are receivable from J&K it is Rs.687 Crores from J&K and Rs.496 Crores from UP and besides that we have some dues from BSES Yamuna of Rs.245 Crores.

Abhishek Puri: Okay, so if I look at from year you have reduced the data from J&K but UP and BSES Yamuna remain at the similar level?

M K Mittal: Yes.

Abhishek Puri: Any possibility of recovery on that side and visibility on the J&K debt recovery further from here?

M K Mittal: You see recently we have received Rs.253 Crores last week only from J&K. We are expecting another Rs.500 Crores may be in a week's time or 10 days time, so most of the dues from J&K will be wiped out. UP is also raising bonds and we have discussions with them last week and they will be getting this bonds soon they are telling, so once they get the bond money, they will liquidate our dues, BSES Yamuna also we are having discussion and we are hopeful that some money will be liquidated very soon We may go for a legal remedy for the recovery of the same, otherwise.

Abhishek Puri: Okay so just a follow up, since you have a reasonable visibility on the debtors, Rs.800-1000 Crores may come in and if the UP is finalized that Rs.1400-1500 Crores or maybe about 1200 Crores could come it plus this year?

M K Mittal: Rs. 500 crore approx. from UP.

Abhishek Puri: Rs. 500 crore okay and for this year the capex on Subansari will be limited, right, what is the full year capex estimate now?

M K Mittal: Full year capex estimate is Rs. 3089 Crores, which includes Parbati-II Rs.750 Crores, Subansari Rs. 930 Crores, Kishanganga and Teesta Rs.440 Crore.

Abhishek Puri: And will be spending this money because the clearance is now delayed?

M K Mittal: We have already spent almost Rs.310 Crore on Subansiri Lower and that is spent to the extant permissible under the norms.

Abhishek Puri: So we can maintain the last year dividend right?

M K Mittal: Hopefully.

Abhishek Puri: Thank you.

Moderator: Thank you very much Sir. We have a last question from Amit Golchha from HDFC Mutual Fund. Please go ahead.

Amit Golchha: Sir in the projects which you mentioned Baira Siul and Loktak, what could be the capex on the life extension on R&M?

M K Mittal: For BairaSiul is it is Rs. 340 Crores which we are going to spent on R&M (renovation and modernization) and for Loktak it will be Rs.260 Crores that is what is estimated at the moment.

Amit Golchha: Sir during the life extension these two projects will be closed down or shut down, how?

Balraj Joshi: Fully shut down for six months. Further, we have planned this project to run concurrently and doing the maintenance unit wise, R&M will be unit wise. This Bairasiul project already cleared by CERC and the benefit will come from 2019-2020 and for Loktak we have already submitted the proposition with CEA and it is under examination. After the examination we will file the petition to CERC then we will plan for Loktak Project.

Amit Golchha: So Sir in case Bairasiul the yearly generation run rate will not be impacted significantly because of this activity?

Ratish Kumar: Generator will be partly affected for six months.

Amit Golchha: How much time it will take Sir this activity all put together?

Balraj Joshi: Complete shutdown we have planned for six months so during that period generation will be affected, rest of the period we will be running two units and one unit will be – during R&M renovation and modernization at a time, we will be available every time. There will not be much generation for this.

Balraj Joshi: The R&M will be four years, 2017 to 2021, up to 2021.

Amit Golchha: Okay but generation impact will only be in the six months you are saying?

Balraj Joshi: Full project for six months and then one unit will remain under shutdown for four years one by one, one unit one year, second unit next year, third unit next year, and some other activities.

Moderator: Thank you Sir. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Deepak Agrawala of Elara Securities Private Limited for closing comments. Over to you Sir!

Deepak Agrawala: We thank the entire management team led by Mr. Joshi and his colleagues for giving us an opportunity to host this call. We also thank all the investors and analysts for joining this call. Sir any closing remarks you would like to make before a formal close.

Balraj Joshi: Thank you on behalf of my entire team and people who are sitting here and this is always very informative to have discussions like this, which also allows us to have some kind of reflections on our activities and working. Thank you so much. We will assure you that we are certainly going to take concrete actions on the things which are required to be done so as to see that not only the dividend is maintained but improved. Thank you very much.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Elara Securities Private Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines.