



“NHPC Limited Q1 FY2019 Earnings Conference Call”

August 13, 2018



ANALYST: Mr. Harshit Kapadia – Elara Securities

MANAGEMENT: Mr. Balraj Joshi - Chairman and Managing Director
Mr. Ratish Kumar - Director (Projects)
Mr. Nikhil Kumar Jain - Director (Personnel)
Mr. Mahesh Kumar Mittal - Director (Finance)
Mr. Janardan Choudhary – Director (Technical)



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Moderator: Ladies and gentlemen, good day and welcome to the NHPC Limited Q1 FY'19 Earnings Conference Call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask 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. Harshit Kapadia from Elara Securities Private Limited. Thank you and over to you!

Harshit Kapadia: Thank you Zaid. Good Morning everyone. On behalf of Elara Securities, we welcome you all for the Q1 FY'19 conference call of NHPC Limited. I take this opportunity to welcome the Management of NHPC Limited 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 Mr. Janardan Choudhary – Director Technical and their entire team. We will begin the call with a brief overview by the Management followed by a Q&A session. I will now hand over the call to Mr. Joshi for his opening remarks. Over to you Sir!

Balraj Joshi: Thank you. Good morning everybody and thank you for having on this conference call. Let me start by saying that on August 10, 2018 our Board has adopted Q1 FY'19 financial results. During Q1 FY'19, our power stations have generated 7,035 million units vis-à-vis 8,549 million units generated in the corresponding period of the previous year. This is 17.7% lower than the previous year corresponding period and the reason for that is basically the lesser



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inflow of water. Lesser water this year and lesser snow melt resulting in water availability to our plants, otherwise our plants have done well so far their availability is concerned, which is 92.32% and previous year corresponding period we had 97.12%, but nevertheless this is higher than the NAPAF fixed by the CERC.

PAT correspondingly has reduced to Rs. 738 crores vis-à-vis Rs. 863 crores of previous year corresponding period and is down by about 14.50%. So it is almost same like generation which is also down by 17.71% and the profit also has taken a hit. The good news is that on capacity addition front all the three units of Kishanganga Project have started commercial operation. Initially some teething troubles were going on, now we are on a right course and hopefully in this year it should get stabilized. As you know this plant was dedicated to the nation on May 19, 2018 by Honorable Prime Minister. Further, construction work at 800 MW Parbati II Project in Himachal Pradesh is going on and we are out of that poor zone in the tunnel and as I told you last time also that the dam and powerhouse are already completed and there is a stretch of about 3 kilometers out of the total length of 35.1 kilometers of HRT, which is still remaining and we are moving slowly, but surely.

Subansiri Lower project, which is in the State of Assam and you know that the case is in the NGT and we are expecting verdict from NGT on the constitution of the committee, which was formed by an award given by the NGT few months ago and now they have to decide whether this committee should be allowed to continue its work in this form in which it has been constituted or there is a need for change or like NHPC has said that let the entire gamut put before the EAC, which is much stronger technical body of the MoEF. They can actually appraise the projects and then tell us how to go forward,



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but one thing is certain that NGT has not put a stop to the project and they have said that probably some kind of operational restrictions they might be looking for, for which the matter has been referred to the three-member committee, which put his report to the EAC. We are hopeful that, let us say in coming one or two months, we would hear some good news on the Subansiri front also. Now I would hand over to our Director Finance, Mr. Mittal for detailed analysis.

M K Mittal:

Thank you Sir. Good morning everyone. As our Board has adopted the Q1 Accounts Ending 30th June 2018 in its meeting held on August 10, 2018, the same have already been communicated to exchanges. The brief highlights of the financial results and the important updates of the company are as under: During Q1, FY'19 our power stations have achieved generation of 7,035 million units vis-à-vis 8,549 million units generated in the corresponding period of the previous year, which is 17.7% lower broadly due to lower water availability. Plant Availability Factor for Q1 FY'19 stands at 92.32% against the corresponding previous year figure of 97.12%. During Q1 FY'19, company has achieved sales of Rs. 2,129 crores as against the sales of Rs. 2,328 crores in the corresponding period, which is about 8.54% lower. Decrease in sales is mainly due to lower generation.

Other income for Q1 FY'19 is of the order of Rs. 113 crores versus Rs. 105 crores in Q1 of the previous year, which is 8% higher. Generation cost has come down by Rs. 38 crores, which is primarily due to lower water cess paid in Q1. The employee cost has come down by Rs. 53 crores, which is primarily due to superannuation of 656 employees during the last one year. There has been a saving in the finance cost of Rs. 20 crores despite additional interest of Rs. 7 crores due to commissioning of Kishanganga Project. Rs.20 crores



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has been saved due to repayment of loan and Rs. 7 crores have been saved due to refinancing of high cost debt with the lower cost debt. During Q1 FY'19 PAT is Rs. 738 crores vis-à-vis Rs. 863 crores in the corresponding quarter of the previous year, which is down by Rs. 125 crores and is 14.5%. As you are aware, we had commissioned our first solar project of 50 MW in March 2018 in Tamil Nadu, the project has generated 16 million units during the quarter and contributed Rs. 2.63 crores profit before tax in the first quarter. During Q1 FY'19, planned availability based incentive is Rs. 156 crores versus Rs. 172 crores in the corresponding period and because of the lower plant availability the incentive has also come down by 9.5%. Deviation charges have increased as compared to the last year Q1, which is Rs. 62 crores as compared to Rs. 48 crores last year. Board of Directors in its meeting held on May 28, 2018 had recommended a final dividend of Rs. 0.28 per equity share making total dividend of Rs. 1.40 for FY 2017–18 including interim dividend of Rs.1.12 per share. The same shall be placed for approval before the shareholders in the ensuing AGM scheduled on September 27, 2018.

CAPEX during Q1 of FY'19 was Rs. 470 crores as against Rs. 633 crores in the corresponding period of the previous year. CAPEX plan for FY2018–19 is Rs. 2740 crores.

On capacity addition front, all units of Kishanganga Hydro Electric Project (330 MW) has already started commercial operation. Unit one started commercial operation w.e.f. May 18, 2018, unit two and three has started commercial operation from May 24, 2018.

Our CMD Sir has already conveyed to you the status of Parbati II and Subansiri Lower Project. The status of clearance of the



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forthcoming project is under: Pre-investment clearance for Teesta-IV of 520 MW in Sikkim has been received. FRA compliance is underway. Draft PIB memo for implementation of the project has been submitted. In respect of Dibang Multipurpose Project of 2880 MW, Ministry of Environment, Forest, and Climate Change, Government of India has accorded forest clearance stage 1 and environmental clearance. FRA compliance is underway. PIB memo has been circulated by MoP.

Approval for pre investment activities in respect of Tawang-II 800 MW project has been accorded by MoP and FRA compliance is underway.

The other highlights for Q1 FY2019 are: During the current fiscal MoU for 2018–2019 with Ministry of Power, Government of India was signed April 20, 2018. On realization front, we have received Rs. 1243 crores from beneficiaries against sale of energy during Q1 FY'19 as compared to Rs. 1542 crores in the corresponding period of previous year. Total receivable for sale of power stand at Rs. 1799 crores as on June 30, 2018 as against Rs. 2199 crores during Q1 FY'18.

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. The first question is from the line of Abhishek Puri of Deutsche Bank. Please go ahead.

Abhishek Puri: Good morning Sir. On the quarterly results, is there any dividend income from NHDC in the current quarter and could you comment



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on the performance of the company because we are seeing that the generation there has declined quite considerably?

M K Mittal: We have not received any dividend from NHDC during Q1 FY'19, however we may get some dividend in the next quarter or next to next quarter. DO you want to know about generation of NHPC?

Abhishek Puri: NHPC also Sir?

M K Mittal: As we have already told that generation is down by 17.71% and which is primarily due to the lower water availability in the river because there had been lower snowfall during winter and most of the rivers where our plants are located are snow fed river and because of the lower water availability, the generation is down.

Abhishek Puri: How has been the monsoon water flow? Has that improved in June, July months because I was reading that the Sutlej River has actually shut, most of the plants are shut due to heavy silting?

Balraj Joshi: You are right. Let me say that this monsoon has been good overall. It has been very good actually, but it has been selectively good in some of the base like you mentioned Sutlej and similarly Ravi river also. They did not get as much of discharge. Ravi river for example did not get as much of discharge as was expected from this monsoon, but nevertheless I would have a positive outlook on this in this ongoing quarter in the sense of the generation and we hope that this will continue in future also. Regarding siltation aspect, yes there has been some problem when suddenly a burst of rain comes, it brings a lot of silt with it. We do have problems, but our plants are then shut down for let us say day or two, not for more time and we take that opportunity to flush out the sediment from the reservoir.



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Abhishek Puri: Thank you Sir, and lastly on the CAPEX Rs. 2740 crore for FY'19. How much are you building for Subansiri Lower and is that estimate dependent on plant coming back on works completely or is it just some minor modification that you are doing?

M K Mittal: Yes, that is for the works which are in progress. This Rs. 2,740 crore includes 500 crores on Parbati-II, which is under active construction, For Subhasri Lower we have estimated Rs. 866 crores during FY'19. For Kishanganga we will spend Rs. 205 crores, the project is already commissioned, but there are some civil activities, which are still going on and this is a part of the cost of the project. On Dibang, which is an upcoming project, we have proposed Rs. 400 crores in the current fiscal year and for Teesta IV we are proposing Rs. 100 crores, we are keeping Rs. 216 crores on Pakal Dul, which is already started and our equity investment there is envisaged at Rs. 342 crores during the year. We are going to spend around Rs. 138 crores on R&M of Baira Siul. So primarily these are the CAPEX which are going to be incurred and in aggregate, it is Rs. 2,740 crores.

Abhishek Puri: Sir, you can repeat the R&M number?

M K Mittal: Rs. 138 crores on Baira Siul.

Abhishek Puri: On Dibang and Teesta IV, is it pre-preparation work or is it that you expect to award the contracts in the current year and hence this CAPEX has been assumed?

M K Mittal: It is both actually. We want to give some forest payment in Dibang and in Teesta IV. We hope to award some contracts and give some advances.

Abhishek Puri: And the tenders have been floated for this?



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- M K Mittal:** Yes, tenders are already in the process.
- Abhishek Puri:** Thank you so much Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Amit Golchha from HDFC Mutual Fund. Please go ahead.
- Amit Golchha:** Sir, in case of Q1 results, have we under recovered on any parts due to design energy or due to PAF in any of the projects?
- M K Mittal:** No. on an aggregate basis, actually the generation is more than the design energy.
- Amit Golchha:** What explains the drop in profit from last year Q1 because your incentives are almost similar?
- M K Mittal:** Yes, incentive is little lower. PAF incentive is lower by Rs. 16 crores approx.
- Amit Golchha:** So, your UI is higher by about Rs. 13 crores, broadly both the incentive and UI number, put together the total is same and you said that have recovered?
- M K Mittal:** We do not get secondary energy. Because of the lower generation we have not been able to get the secondary energy.
- Amit Golchha:** What I am saying is that your PAF incentives capture everything right?
- M K Mittal:** Yes.
- Amit Golchha:** Whatever PAF incentive you have recovered this year versus last year and whatever UI charges you have recovered this year versus last year and there is no secondary energy, so all these three put



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together it is same and you are saying there is no under recovery on design energy and there is no under recovery on availability in any plant, if that is the case then why should profit drop, other income is also slightly higher?

M K Mittal: Actually there has been some decline in the energy charges and this decline is almost Rs. 230 crores.

Amit Golchha: Can you explain this a little bit?

Balraj Joshi: I will Ask Mr. Janardan Choudhary to explain.

Janardan Chaudhary: For some of the power stations, some reduction in design energy are there, but recovery of energy charges is on annual basis. This monsoon has improved and we are hoping that we will generate more than the design energy in some power station and we will achieve the design energy in most of the power stations.

Amit Golchha: So, Sir is that Rs. 230 Crores is under immediate recovery which you will recover during the next nine months?

Janardan Chaudhary: PAF we have already lost because of less inflow so that part will not be recovered, but on the energy charges part we, will recover fully.

Amit Golchha: Sir, in Kishanganga did you under recovery in this quarter or you made some profit?

M K Mittal: No, there is under recovery because the plant has not been able to run at its full capacity. There is a loss of almost Rs. 20 crores this quarter against Kishanganga.

Amit Golchha: So, on a normalized basis you should have made a profit and you are saying we have made a loss of 20 Crores?



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M K Mittal: Kishanganga Project started commercial operation only in the month of May 2018 that was also in the last week, so, the machines are getting stabilized and we believe that this project is also going to yield profit for NHPC.

Amit Golchha: So, Q2 onwards the plant should stabilize?

M K Mittal: Yes, that is correct.

Amit Golchha: Sir, you had mentioned in case of Subansiri, NGT has referred that to EAC, is it?

Balraj Joshi: No, Director (Personnel) would give you the detail.

N K Jain: In November 2017, as per the direction of NGT, a committee has been setup to look into the various issues. The composition of the committee had been challenged in NGT and that is the issue, which is presently before the NGT for a final call. NHPC had requested that since the composition of the committee has many people who have already been associated with the project it would be better if it goes directly before the environmental assessment committee of the MoEF because that has about 16 members who are experts in the respective areas. The judgment has been reserved by the NGT. We are hopeful that whatever judgment comes, it will at least be a way forward either the committee will be changed or if the NGT decides okay the current committee will take a call and that call will come in a month or so or it goes directly to EAC even then in any decision, would be stepped forward.

Amit Golchha: Sir, the maintenance work, which have been doing in Subansiri. Are they at the same pace?



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Balraj Joshi:

You have put it right actually. It is maintenance work. Not only the maintenance, but there are protection works also. As you know that we had activated and made large ducts in the hill and we were apprehending that these hills under the action of monsoon and weathering they will start giving way, so we had requested at that time to NGT that allow us to do certain kind of protection work. So that is going on and similarly in the tunnels also, some protection works were required like putting anchors and some concreting work that will go on, so in fact some of the tunnels we have seen that there is a tendency of the rock to dilate so these are the places where the protection work started & we are continuing with that.

Amit Golchha:

Right, Sir. Thank you and I will come back in the queue. Thank you very much.

Moderator:

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

Ashish Shah:

Sir, one quick clarification in your notes to account there are certain items where the auditor has said that the claims in arbitration proceeding, which we said that we do not provide. So can you just give some colour on this? What are the claims, what are the arbitrations, what is the amount and how much is provision for?

M K Mittal:

You may have seen from our annual report of FY'18 that we have contingent liabilities of Rs. 10400 crores and out of this probably Rs. 8300 crores is under litigation for the various construction activities and some of these cases are under arbitration, some are pending in the court roughly the litigation worth Rs. 5000 crores is under arbitration and almost Rs. 3300 crores is in the courts where the judgments were announced by the arbitration tribunal, but we have challenged them into the court. Now this Rs. 5000 crores as and

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when decided we will see whether the judgment is based on merit and if the judgment is not based on merit, certainly we will challenge them in the court and unless and until the finality is achieved we do not make any provision. So this is what the auditors have mentioned that so much liabilities on account of arbitration cases, which have not been accounted in the books.

Ashish Shah: This amount would be with respect to our receivables like DISCOMS? Can you give some more colour on this?

M K Mittal: No, this amount is primarily due to the litigation in the various construction activities of the projects like we do the construction of the project, we appoint a contractor for civil work, appoint a contractor for hydro mechanical works or electrical work and on conclusion of the contract the contractor come forward with various claims for various reasons and these are the claims by the contractor against the company, but not acknowledged by the company. It has nothing to do with the DISCOMs or with regard to our sale of power.

Ashish Shah: Fair enough. Thanks a lot.

Moderator: Thank you. The next question is from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.

Dhruv Muchhal: Thank you. Sir, energy charge is lower because your generation was lower, so assuming you do not recover the full generation for the full year, is this Rs. 200 Crores is permanently loss or will you recover it in the following year?



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M K Mittal: As we mentioned earlier this energy charge will be received going forward as we will achieve our design energy on an annual basis. The energy charge is going to be recouped.

Dhruv Muchhal: But if the water flow remains at the current levels and I think a few other hydro players have said that the water flow this year can be low; so will it still be achieved or for instant, generation this year is lower than the last year or lower than design energy so this is permanently lost?

M K Mittal: No, CERC regulation allows the recovery even in the subsequent year. like in the earlier years we had certain shortfalls for which we have filed petition for almost Rs. 100 crores. We are going to recover almost Rs. 100 crores in case of loss in the design energy in the earlier year. The petition is already submitted and we are hopeful that we will get an order for recovery of those Rs. 100 crores. So similarly if there is any shortfall in the design energy achievement in this year that is going to be recovered in the subsequent year.

Dhruv Muchhal: Sir, has there been any instance in the past where we have received such shortfall through design energy?

M K Mittal: Yes, this is a regular phenomenon.

Dhruv Muchhal: On Kishanganga, what is your capitalized cost and what is the billed cost? I mean you generally have a difference between the project cost, which you bill to the customers in terms of what you recognize in revenue and what you capitalize?

M K Mittal: So far, we have capitalized Rs. 5300 crores and the CERC has allowed us 85% of that on a provisional basis.



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Dhruv Muchhal: And booking revenue also in 85%?

M K Mittal: Yes, 85% only and once the RCE is approved then we will get the remaining revenue.

Dhruv Muchhal: Sir, in that case until the RCE is approved, we will not get any benefit of Kishanganga in our P&L?

M K Mittal: Of course there is a profit element and we will have to see how much is under recovery. Currently we should be able to achieve the breakeven.

Dhruv Muchhal: When should we expect this RCE to be approved?

M K Mittal: RCE is already submitted to the Government and may be in the next six months we may get the approval on RCE.

Dhruv Muchhal: Is it the same process, which we have for the five pending projects where the capital cost is under allowed, is the same thing, which go through or is the different process?

M K Mittal: It is the same process, but let me give you one updation that now CERC has allowed us to file revised petition for all the cases where RCE is pending. They will allow us the full recovery based on the Board approval and any of the four approvals, CEA approval or DIA approval or PIB approval or CCEA approval. So Board approval plus any one of these four, it is that way we submitted for petition to CERC during the last month July'18 or during the current month. We have already submitted the petition but pending petition of 2009 – 2014 and the remaining petitions for 2014 – 2019 we are going to submit within this month and that way CERC has allowed us to proceed and based on that we will have the full tariff.



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Dhruv Muchhal: So, this can benefit us significantly in terms of the under recovery of capital cost, so if the CERC approves all your tariff petitions I think five projects including Kishanganga, what is the incremental annual revenue, which we can see in addition.

M K Mittal: See, in case of Kishanganga there is a different issue. In other cases, the cutoff period is almost over. The cutoff period is two years post-commissioning. Excluding the year of commissioning, two more years are added and whatever cost is incurred till then is considered as RCE, revised cost estimate and we are hopeful that CERC should allow us additional recovery of almost Rs. 600 crores.

Dhruv Muchhal: Rs. 600 crores is annual revenue?

M K Mittal: That is the entire revenue, which is in arrear & not paid.

Dhruv Muchhal: What would be annual revenue in this case just to get the annual run rate?

M K Mittal: We have not worked out the same annual basis. We have worked out the total recovery which is due.

Dhruv Muchhal: Sure and for Kishanganga this will apply after two years?

M K Mittal: After two years, because we will have to first complete entire activity and then only we can ask for RCE.

Dhruv Muchhal: Just to get it right, after two years you will be a breakeven case for Kishanganga Project?

M K Mittal: Till then it is a breakeven case.

Dhruv Muchhal: So you will not see a PAT because of Kishanganga for some time?



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M K Mittal: Marginally, we have not seen, but we are sure that we are making breakeven as of now.

Dhruv Muchhal: Thank you.

Moderator: Thank you. The next question is from the line of Amit Golchha from HDFC Mutual Fund. Please go ahead.

Amit Golchha: Sir, a followup on the previous question, so there are three parts to under recoveries one is what you are saying the tariff orders which are pending for 2014 – 2019 and there are five projects and you said that there are arrears of Rs. 600 Crores and I also looked at your revised petition versus what CERC have allowed earlier the difference between annual number is coming to somewhere around Rs. 200 crores. So this is one part and second part is you are under recovery on TLDP IV because of the provisional tariff order and that is how much on yearly basis?

M K Mittal: Today we are getting Rs. 2.80 per unit and based on the RCE we should be getting almost Rs. 7 per unit.

Amit Golchha: For TLDP IV you are saying?

M K Mittal: Yes.

Amit Golchha: Design energy for TLDP IV?

M K Mittal: 720 million units.

Amit Golchha: So 72 crores units and Rs. 4 per units are under recovering. Is that the correct number understanding?

M K Mittal: Yes, absolutely right.



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- Amit Golchha:** So, Rs. 280 crores per year is under recovery?
- M K Mittal:** Yes.
- Amit Golchha:** This is second part and third part now, will you under recover to the extent of over 85%?
- M K Mittal:** Yes, there is 15% under recovery.
- Amit Golchha:** Apart from Kishanganga, is there any project where your CERC and your actual cost is different?
- M K Mittal:** Yes, apart from Kishanganga, we have five projects TLDP III, TLDP IV, Chamera III, Parbati III & Sewa II.
- Amit Golchha:** Sir, it will be helpful if you may let us know the total under recoveries in an account of these projects all put together on yearly basis?
- M K Mittal:** Total under recovery, without Kishanganga is almost Rs. 600 crores.
- Amit Golchha:** Annual?
- M K Mittal:** No, it is total.
- Amit Golchha:** How much is annual?
- M K Mittal:** Annual we will work out later on.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar of IDFC Securities. Please go ahead.
- Mohit Kumar:** Good morning Sir. in the NHDC the generation is still pretty low if I compare last couple of years of course FY2018 was bad, FY2019 is



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also looking very very bad year. Is there any particular reason for this? Is there any chance that this will improve in the next coming 10 months, 8 months?

Balraj Joshi:

As you know that NHDC plants Indira Sagar and Omkareshwar are being operated by us in association with NVDA because basically these are multipurpose projects used for irrigation & power generation. NVDA decides how much water they want to retain, how much they want to release and whatever water is released to downstream that is the only water which can be used for generation. Now if they want to play safe and their estimation tells that probably this monsoon is not going to be good, which could be wrong also, so would like to play safe and retain some more water in reservoirs as it's very big. So it has got no correlation as such, so it is perception of a person who is operating the reservoir. For example, I remember that the Bargi dam which is on the upstream of Indira Sagar. Last time they did not allow water to be flown to downstream because they were comprehending that probably this monsoon is going to be bad, so they retained some water there, but now I had been there myself and seen that this year monsoon has been actually good and we hope that in coming times we might have more water released to downstream which can be used for power generation.

Mohit Kumar:

If they allow, so how does that impact on return ratio?

Balraj Joshi:

As I told you it depends upon them if they want to store water in the upstream, so there is no way we can run a plant. The plant has been kept always ready and as there is no savings in plants, these plants are really in a very good position to generate as and when required. So I hope that with filling up of the Bargi and Indira Sagar reservoir



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now with this monsoon, the generation in the coming months are going to improve a lot.

Moderator: Thank you. Next question is a followup from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.

Dhruv Muchhal: Sir, two questions, first is on the employee and the other expenses. They continue to be either flat or down, so how do you see this run rate continuing and because we have an under recovery in the O&M cost, so what benefit does it in monetary terms does it derive?

M K Mittal: You see employee costs are down by almost Rs. 53 Crores in quarter one and the same trend is likely to continue in Q2 and thereafter because whatever reduction is there that is primarily due to retirement and superannuation of 656 employees on year to year basis and in the next quarter also the same trend of retirement will continue. So this may improve further, I mean to say employee cost may decline further going forward in spite of the annual increase, which may happen because of the increment and the quarterly DA. We foresee that there will be further reduction because of the retirement and secondly the other expenses are down because we have put in place many cross cutting major. There is a decline in the insurance cost, there is a decline in the advertisement and publicity expenses and there were other various expenses, which are there in the organization, so there is a decline. Last year also we had a good decline and this year also there is a declining trend, so we hope that this trend will continue going forward.

Dhruv Muchhal: Net and net what incremental savings should we see because of the reduction in O&M under recovery, I think last year was about Rs. 600 crore or Rs. 500 crores so what this year number could be because you are also having escalation in the normative O&M net and net?



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N K Jain: I would also like to say that we are having a retirement pattern of about 550 people who are retiring every year. So here again about 400 of workmen category which are unskilled, so even in that way whose average age is high it is about 53, 54 so to that extent the reduction in the employee cost is likely to be a phenomenon which we carried forward for at least three, four years' time even if we do some inductions even then this is likely to be sustained.

Dhruv Muchhal: We should see Rs. 200 crores jump in PAT because of this?

M K Mittal: Absolutely right.

Dhruv Muchhal: Sir, just coming back on the RCE, four projects are pending for RCE and TLDP IV where the differential of revenue is about Rs. 4, is it what is the case there when can we see the recovery of revenue there?

M K Mittal: There are five projects besides Kishanganga, which are awaiting RCE. Sewa II RCE is going to be add another Rs. 100 crores to our sanction cost, Chamera-III we are expecting the addition of Rs. 125 crores in our capital cost of the project, TLDP III we are expecting Rs. 194 Crores, Parbati III we are expecting Rs. 1170 crores addition, TLDP IV we are expecting Rs. 861 crores. So these are the five projects where RCE is going to increase the total cost by almost Rs. 2400 Crores.

Dhruv Muchhal: But when you mentioned earlier you were mentioning only four projects for RCE?

M K Mittal: Five plus one Kishanganga.



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Dhruv Muchhal: RCE for these five projects excluding Kishenganga should be there within six months?

M K Mittal: I was telling that the four projects RCE was due in the period 2009-2014 and for one more project RCE became due in 2014-2019, so in 2014-2019 we have RCE pending approval for five projects. 2009-2014 period we have RCE approval pending for four projects.

Dhruv Muchhal: Thank you.

Moderator: Thank you. The next question is from the line of Prashant Kshirsagar from Unived Cooperate Research. Please go ahead.

P Kshirsagar: Good afternoon Sir. After the successful commissioning of Kishanganga hydroelectric project, do you think the Bursar project will be revived or any indications on that?

Balraj Joshi: No, Bursar does not have any linkage with Kishanganga project, but as you know we have already submitted the DPR and there is an element of irrigation component in the Bursar project, which has to be given as a grant by Government of India or any other Government failing which this project does not remain feasible. Otherwise if you put it just like a power project, the generation cost was coming around Rs. 28 per unit, which certainly is not viable and NHPC is not going to build in that case so we have put our case report with the Government and they are discussing over the issue. In case it is decided to put up it as a purely power project, it is not viable.

P Kshirsagar: Sir, the second question is about the stress for private sector projects, I just wanted to know the status now of Teesta-VI of Lanco. NHPC was interested, so is there any further progress from there?



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- Balraj Joshi:** NHPC was interested in Teesta-VI that is correct and we have in fact shown our expression of interest also and we are working on that, but one big issue, which comes in between is that we have to see the Government's approval even for bidding. In- Principle we have got the bidding approval, but we have to go through the route of the PIB and CCEA and acquiring the government approval as it is what in our case for interesting in any big project, so this is going to take time. We are taking up it with the Government and meetings are also going on with them and hopefully we would be able to bid for the project within deadline which is August 25, 2018.
- P Shivsagar:** Sir, second on private sector project Jal project 120 MW in Sikkim, NHPC had shown an interest, so any further progress on that or is it?
- Balraj Joshi:** We have been to project. Our teams have seen and some kind of due diligence also has been done, but so far there has not been call by NCLT for expression of interest. So once they do it we may consider.
- P Shivsagar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Golchha from HDFC Mutual Fund. Please go ahead.
- Amit Golchha:** Sir, the revised cost estimate which you mentioned in terms of CAPEX Rs. 2400 crores for five projects plus if I take Kishanganga also it was about Rs. 800 crores, I want to understand if I look at your overall capitalized amount today and your revenue it is about 20% of the capitalized amount. So against the revenue which will be getting out of this additional capitalization in terms of expenses, what are already expensed and what is yet to be expensed?



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M K Mittal: Can you repeat the last line?

Amit Golchha: I am saying again this revenue which will come to you, what are the expenses, which is already expensed and what is remaining to be expensed. So one is tax debt you will have to pay and apart from that how much any additional expense has to come into the P&L?

M K Mittal: You see depreciation will be there on the additional capitalization, which is already inbuilt in the books, but we will get it and interest is already charged on the entire CAPEX but we will get the entire thing, only additional expenditure which is not going to be booked in the books will be the tax component and apart from that nothing will be added in our P&L account.

Amit Golchha: So, essentially this additional revenue will become PBT and tax has to be paid?

M K Mittal: Yes.

Amit Golchha: My last question is on this project pipeline, which you have mentioned in the form of Teesta-IV, Dibang, so when do we expect to order these projects and when, do you expect these projects will be on the full-fledged construction?

Balraj Joshi: Well Teesta-IV is in advance stage, we have already floated the tenders and we hope that in this current fiscal only we will be able to start work on Teesta-IV and as regards aa Dibang, PIB already has been circulated and Government is quite keen that this project should be put on raise in this year. It is a very large project and there is a lot of infrastructure works to be done, so full construction would take some time. But I think in this fiscal year we can start some kind of infrastructure work.



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Amit Golchha: On Pakal Dul Sir?

Balraj Joshi: Pakal Dul has already been started. That has been awarded and in fact some work has already been done physically for the power house work and for dam also the contractor has started mobilizing. Third package of HRT is slightly higher than the estimate that we expected. We are negotiating with the contractors to reduce the cost and I am hopeful that in next month we would be able to clinch that HRT package also and thereby all the civil works would have been awarded by two months' time and the work will start in full stream.

Amit Golchha: Thank you Sir.

Moderator: Thank you. The next question is from the line of Abhishek Puri of Deutsche Bank. Please go ahead.

Abhishek Puri: Thanks for the opportunity once again. Sir, regarding these five project petitions that you mentioned, some of these projects have been commissioned way back in 2011–2012, why is the revised cost estimate still not come through in last six, seven years and why it should come in the next five, six months, has there been change in procedure from CERC as you mentioned that one of the other approvals they will take now?

M K Mittal: CERC has changed its decision. Now they say that if the RCE is approved by your Board plus you have vetting of the same by designated agency or from CEA or PIB or CCEA, any one of these four, Board approval plus any of the four, then you submit your revised tariff based RCE we will allow it. This is what they have decided this year and accordingly we have submitted our four tariff petitions for tariff period 2009-14 for those power stations which were commissioned in 2009-14 tariff period and we have submitted our



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tariff petitions based on the RCE and five petitions we are going to submit within this month for 2014–2019, one more project which got added during the current tariff period that is TLDP IV.

Abhishek Puri: Just to clarify for Kishanganga there are two different petitions that needs to be filed right, one is 85% is what they have allowed provisionally on the original cost and that the second petition will be second release will be on the actual cost recovery at 100% level?

Balraj Joshi: Yes, actual cost recovery they will allow after the cutoff date. They have a cutoff date, which is two years after the commissioning of the project, so that will be after two years not now.

Abhishek Puri: Got it and second Sir, on the Subansiri Lower Rs. 866 Crores CAPEX that you have planned if by any chance the project approval gets delayed and the approval from NGT, etc., gets delayed minimum our spend will be about Rs. 200 Crores on the protection works is that understanding correct?

M K Mittal: Yes, that is correct.

Abhishek Puri: That is not part of this Rs. 866 crores & its break up?

M K Mittal: That is a part of this Rs. 866 crores. IDC of Rs. 350 crores plus Rs. 100 crore employee cost plus Rs. 200 crores on protection work.

Abhishek Puri: So about Rs. 700 crores we will spend out of Rs. 866 crores even though the project does not start?

M K Mittal: Absolutely right.

Abhishek Puri: What are the cash utilization plans for this year?



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M K Mittal: The profit of course in a regulated industry is already known, so you must have worked out the PAT plus depreciation you must have projected and we will have a dividend payout and CAPEX that is where our cash will go and we are going to keep borrowing slow as far as possible so that we can put our equity against debt to the extent visible.

Abhishek Puri: That process of equity to debt has not started for Subansiri at this point of time. We are still spending this Rs. 866 crores through equity not through debt?

M K Mittal: Right.

Abhishek Puri: Just one last question on this depreciation Rs. 1400 crores as of last year, this amount equals to your debt repayment schedule or debt payment is lower because I think you told us that in first quarter you have repaid some high cost debt?

M K Mittal: No, that is only a replacement, swapping of the loans but our depreciation is almost Rs. 1400 crores and our annual repayment obligation is almost identical.

Abhishek Puri: Thank you so much Sir.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Kapadia Deepak for closing comments. Over to you Sir!

Harshit Kapadia: Thanks Zaid. We thank Mr. Joshi, Mr. Kumar, Mr. Jain, Mr. Mittal, Mr. Choudhary and their team for giving us an opportunity to host this call. We also thank all the investors and analysts for joining us for this call. Any closing comment Sir!



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Balraj Joshi:

Thank you so much for this very interesting discussion, which we had about the results and in general about operations. Certainly when we discuss matters, number of things also come to our mind and the areas of interest we should have more focus, so we are thankful to all of you for making us aware of number of issues, which are concerning our operations and process. Thank you.

Moderator:

Thank you very much members of management. Ladies and gentlemen, on behalf of Elara Securities that concludes today's conference call. Thank you for joining us. You may now disconnect your lines.