



**“Torrent Power
Q1 FY19-20 Earnings Conference Call”**

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- Moderator:** Ladies and gentlemen, good day and welcome to the Torrent Power Q1 FY19-20 Earnings Conference Call, hosted by Motilal Oswal Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhruv Muchhal from Motilal Oswal Financial Services. Thank you, and over to you!
- Dhruv Muchhal:** Hello everyone. On behalf of Motilal Oswal, I welcome you to the Q1 FY19-20 earnings call of Torrent Power. From the management, we have with us Mr. Sanjay Dalal, the CFO, Mr. Rishi Shah, AGM Finance and Ms. Nikita Khubchandani, Manager Finance on the call with us today. We will begin with brief comments from the management following up with question and answers. Over to you Sir!
- Sanjay Dalal:** Good morning everybody and thank you for joining the earnings call for Q1 FY2019-20. I will give a brief overview for the performance of the quarter and then we will take questions from the participants. Q1 consolidated PAT, profit after tax was Rs.274 Crores versus Rs.229 Crores in the comparative quarter which was up by Rs.45 Crores i.e. approximately 20%. The consolidated PBT for Q1 was Rs.315 Crores versus Rs.290 Crores in the comparative quarter that is higher by Rs.25 Crores approximately 9% up.

Will first discuss the PBT movement and then explain the tax impact. It must be noted that PBT number is after absorbing the impact of a reduction in tariff for our Sugden PPA due to the change in CERC regulations, so this impact was an adverse number of Rs.40 Crores. Thus, the increase of 9% in PBT is after absorbing this impact of Rs.40 Crores, which was well absorbed due to improvement in all our business. They were all positive and brought increased profit. The flagship distribution business is comprising of both franchise distribution as well as licensed distribution showed all round improvement in performance. There was reduction in T&D losses, there was increase in the regulated ROE because of increased investment and favorable dispute resolution, which happened during the quarter and better rate, volume and collection efficiencies which brought in additional profits as compared to last year.

In the generation business of course, there was this Rs.40 Crores impact, but during the quarter we could also sell a lot of merchant power. We sold almost 780 MUs of merchant power in this quarter versus only 77 MUs in the corresponding quarter, so that also helped absorb the reduction in the tariff, which happened in the CERC regulations. Renewable business also brought in additional profits primarily because of two reasons. One is that 42 megawatts of additional capacity was operational for this quarter and the PLF also in the quarter were higher by almost 1.2% as compared to the corresponding quarter, so all of this put together sort of brought in net increase of 9% in the PBT. Now if you look at the tax cost, the tax cost has reduced during the quarter as compared to the corresponding quarter. In the corresponding quarter, the tax expense was Rs.61 Crores. In this quarter, we have booked Rs.42 Crores of tax expense, and this reduction is largely on account of only one factor. That deferred tax liability for the current quarter is lower as compared to what it was in the corresponding quarter. As a result of it, the overall tax costs have gone down by Rs.19 Crores, which explains the additional increase in the profit on a PAT basis overall 20%.

In terms of certain developments during the quarter, we had positive developments on both of our stranded gas based plants which is UNOSUGEN and DGEN. The heartening fact was that while they were generally stranded and not operating, in this quarter they operated on the basis of merchant power contract for the first time. Secondly you may be aware that the UNOSUGEN plant's long-term PPA has also been now approved by the regulator, so we now have a long-term PPA of 278 megawatts based on which from July 1, 2019 onwards the plant has started operating and supplying under the long-term PPA. This will allow us to operate this plant at healthy PLF and significantly curtail losses incurred in the past due to nonoperation of this plant.

On an overall basis, the DGEN plant is likely to operate based on a revival scheme for stranded gas plants, which the government has proposed and reemphasized in the budget by the Finance Minister. If that happens we should be able to run DGEN at about 35% PLF in the balance part of the year.

A brief update on the wind projects, which are under development. There are certain negative developments pertaining to our project under SECI-III auction and the project under SECI-V auction. These projects are in Kutch and they are facing significant headwinds and not progressing as per the required schedule; however, we have protected our self well in terms of our exposure to the EPC contractor, but we still face penalty issues if this project gets delayed beyond a certain point. Now I would request the participants to raise questions.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Abhishek Puri from Axis Capital. Please go ahead.

Abhishek Puri: Good morning Sir. Just a couple of things one on the distribution side if you can tell us what was the reason for this Agra losses to have gone up and is there a negative impact because of that as well in the current quarter and secondly what are the merchant contracts that we have lined up for Q2 and Q3 if there are any?

Sanjay Dalal: In Agra the loss, which has gone up, which you see is on AT&C basis, so the AT&C loss has slightly gone up in Agra; however, if you break it up into two parts that is the T&D loss and the collection efficiency. Then there is a reduction in the core T&D loss as compared to the previous quarter; however, there has been a drop in collection efficiency, but we are not concerned about that because this is coming out of delay in payment of government dues, so are likely to recover that in Q2 and you will see the improvement in AT&C losses in Q2 of Agra. So it is essentially caused by a delay of some government dues, which should have been collected in Q1, but is likely to be now collected in Q2, but the core T&D losses have reduced. What was the second question?

Abhishek Puri: It was regarding the merchant ties up if there are any available for DGEN and UNOSUGEN?

Sanjay Dalal: There are some merchant ties up for Q2, but not beyond, most of the time what happens is that we will probably see some merchant contracts available until October, post October I think there should not be much of opportunity in the merchant market. UNOSUGEN anyway will operate for the long-term PPA, so UNOSUGEN and SUGEN will sort of help top up power and they will keep selling merchant power mostly in the day ahead market if medium-term or short-term contracts are not available and DGEN if it operates under a government scheme as and when operationalized it will also probably sell top up once it is in the day ahead market rather than in the merchant power market, but we do have some contracts for Q2.

Abhishek Puri: If I may ask one more on the wind power projects what are the likely recourse you are given? What is the amount that you have spent and what are the likely recourse in terms of if the project gets delayed beyond the time line the PPA? What is the kind of penalties that we will have to?

Sanjay Dalal: I will first explain how we have protected us. There are two key headwinds I would say. One is the delay in acquisition of land or availability of land and the second is the sharp deterioration in the financial performance of the EPC contractors leading to slow execution. So as far as the EPC contractor is concerned in SECI-III we have fully covered ourselves with bank guarantee for every paisa we have given to him, so we do not foresee and that we will ensure through our contracts and whatever exposure we have will be properly covered until the project is executed by him. So far as the land delay is concerned, yes there is a significant delay in land. While SECI has already extended the milestone related to land acquisition by almost one year, it has not extended the scheduled commercial operation date. Almost all SECI III projects are delayed and everybody has requested for an extension of schedule commercial operation date. If that happens then we will probably be well covered, but if it does not happen there would be significant penalties. The worst-case scenario of penalties would be that if this project is not done we would have an exposure of about Rs.100 Crores

under the PPA by way of liquidated damages and we would have an exposure of about Rs.50 Crores vis-à-vis PGCIL on long-term access related contracts, so about Rs.150 Crores of penalty exposure and about Rs.10 Crores of preliminary and preoperative expenses we might have incurred, so the worst case scenario we see is Rs.160 Crores of penalty and expenses.

- Abhishek Puri:** How much have we spent in this project and advances given to the EPC contractor here?
- Sanjay Dalal:** We have spent about I think Rs.385 Crores to Rs.400 Crores and as I said this is all covered by bank guarantees fully.
- Abhishek Puri:** Thank you. I will join back in the queue Sir.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.
- Mohit Kumar:** Good morning Sir. I have one question regarding the AT&C losses of Ahmedabad. Sir the AT&C losses show a quarterly variation, which is very peculiar. In the first quarter the T&D and AT&C losses goes up and it comes down subsequently. Has it to do with something with the collection efficiency of the area?
- Sanjay Dalal:** You are referring to Ahmedabad right?
- Mohit Kumar:** Right?
- Sanjay Dalal:** So Ahmedabad we are reporting T&D losses not AT&C losses. Collection is never a problem in Ahmedabad, Surat, Gandhinagar license distribution areas right, so that is almost 100% collections. 99.9% is the collection ratio continuously however T&D loss shows the quarterly variation particularly in Q1 you will see a number, which is very high when you compare with the annual number, so this is more a billing issue. We have three segments of customers broadly. One is the retail and commercial customers where we do a billing on a bimonthly basis. We have low tension and street light where the billing is on monthly basis and we have high tension where billing is on a monthly basis. Now there are billing cycles for billing because there are almost 25 lakh customers. What happens is some sales of Q1 is booked in Q2. Whilst the USO or the purchase is happening on a day-to-day basis and in the highest consumption quarter. April, May and June is one of the highest consumption quarters however what happens is that the billing is related to a low consumption period of February and March gets billed in April, May and June whereas the high consumption period billing particularly some part of May and June gets billed in the subsequent period in Q2. As a result the arithmetical T&D loss is higher, but on a whole year basis, we expect to end at a level, which is lower than last year, so that is one part. In terms of trend of reduction if you see that even at this high level we have reduced T&D losses. It was 9.68% in Q1 of previous year. It is 9.36% this year, so there is a reduction of 0.32%. For the whole year, we are expecting it to be less than 4.75%.
- Mohit Kumar:** Right. Sir can you please repeat the impact on account of various factors, which you mentioned in the beginning of this speech, I believe impact of CERC regulation was Rs.40 Crore negative can you repeat the other numbers Sir? I missed that?
- Sanjay Dalal:** Come again if you can repeat your questions?
- Mohit Kumar:** Can you repeat the impact of various factors, like impact on profit due to T&D, due to reduction in T&D losses, impact of CERC regulation, etc., etc., which you mentioned at the initial beginning of your speech?
- Sanjay Dalal:** So the negative impact of CERC regulation was almost Rs.40 Crores. The distribution business, license as well as franchise put together I will just give you a broader level number. They contributed an additional Rs.60 Crores at PBT level and the reasons behind Rs.60 Crores was primarily reduction in T&D losses across all these businesses, improved ROE in the regulated businesses and volume, rate and collection efficiencies primarily in the franchise businesses. The generation business apart from this negative Rs.40 Crores benefited from increased sale of merchant power, so there I think at a PBT level the number is about Rs.42 Crores this year.
- Mohit Kumar:** How much Sir?
- Sanjay Dalal:** Rs.42 Crores and renewable business gained from two things. One was higher PLF as compared to last year about 1.2% higher and 42 megawatts of additional capacity was operationalized for this quarter, so that put together brought in about Rs.17 Crores, so these are broader level numbers.

- Mohit Kumar:** Sir why is the delay in handing over Shil Kalwa distribution franchise and when do you expect it to take over?
- Sanjay Dalal:** We expect to take it over soon after the Maharashtra elections.
- Mohit Kumar:** So that is post September and October, am I right?
- Sanjay Dalal:** Yes so our internal target is October 1, 2019.
- Mohit Kumar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.
- Nitin Arora:** Sir just one question...
- Moderator:** Nitin can you speak closer to the handset please. Your voice is not audible.
- Nitin Arora:** My question is more to do with the wind projects. When you look at SECI-III, I just wanted to know bank guarantee amount which you have taken from Suzlon and what is the upfront guarantee, which you have given to the authority? That is my first question?
- Sanjay Dalal:** What is the question? I could not hear it clearly?
- Nitin Arora:** Sir my question is that the bank guarantee, which you have taken from the vendor what is that amount and how much is the bank guarantee from our books, which have been given to the upfront authority?
- Sanjay Dalal:** So as I said the penalty exposure to SECI is Rs.100 Crores and it is covered by a bank guarantee given by us to SECI. The penalty exposure to PGCIL for defaulting on the long-term access and connectivity agreement is roughly Rs.50 Crores and that is also covered by our bank guarantee given by us to PGCIL right. That is one part of your question. Suzlon as and when we pay we first receive a bank guarantee and then only we pay money, so I think currently we are holding a sum of Rs.400 Crores of bank guarantees.
- Nitin Arora:** From Suzlon part?
- Sanjay Dalal:** Yes.
- Nitin Arora:** Sir if you can throw some light on SECI-V status what is the land acquisition there, so SECI-III and SECI-V I would assume would be still facing the land issues right?
- Sanjay Dalal:** Yes SECI-V also is facing land issues. We have acquired I think 20 sites
- Nitin Arora:** And SECI-I how is that doing?
- Sanjay Dalal:** First I will finish SECI-V, so SECI-V we have out of 58 locations we require, we have sort of closed in on 20 locations right now. However, we still have not given out an EPC contract, but there is sufficient time because the scheduled commercial date for SECI-V is July 2020 and the land acquisition related delays will also result in some extension thereof, so SECI-V we are not worried on completing it in timeline. Now coming to SECI-I project where we have our 100 megawatts so out of that 100, one 50 megawatt has been commissioned in July and the other one is delayed beyond even the longstop date. We have the option of giving back this project. This project was bid by the EPC contractor so therefore all exposure on PPA and all exposures to SECI are on the EPC contractor as of now and we are fully covered for all the money, which we had given to him. So if we would be accepting the project and if we feel that it will be delayed significantly beyond the longstop date, we will return the project to the EPC contractor and take back all our money the way we did for one project last quarter. So there we do not have any financial exposure. There also whatever financial exposure we have, we have full bank guarantees. Right now, we are in discussion with the EPC contractor to assess when he is likely to complete and if he is likely to complete significantly beyond the longstop date, we may choose not to keep the project and give it back.
- Nitin Arora:** Sir lastly on the gas policy, which the government is talking about in your assessment because you must be part of the working and if you can share some thought process that how much PLF you think you can improve if that gas policy comes up for DGEN that is my last question?
- Sanjay Dalal:** Firstly we are not part of any committee, which is working on the proposal. The policy is being framed entirely by the government and I do not think they are asking any private sector participation. However, what we understand is that the government is looking at ensuring that about 30%-35% PLF

is possibly by the gas supplies under the policy. So our understanding is that the broad contours of the policy will more or less be what it was when it was first introduced in 2015-16. However the exact details will be known only when it is released. DGEN will operate under the policy while, UNOSUGEN and SUGEN will go outside the purview of the policy, because we already have long term PPA in place.

- Nitin Arora:** Got is Sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.
- Bhavin Vithlani:** Thanks for the opportunity. One question on the CERC regulation, is it fair to annualize the Rs.40 Crores impact in the quarter or it will be helpful if you give us what could be the annual negative impact for SUGEN?
- Sanjay Dalal:** It is fair to annualize it.
- Bhavin Vithlani:** So Rs.120 Crores?
- Sanjay Dalal:** Rs.160 Crores.
- Bhavin Vithlani:** Rs.160 Crores for the year? Any benefit that we have got from the regulations, which will impact the negative Rs.160 Crores impact?
- Sanjay Dalal:** No that is all factored in this. Some gains were there in working capital allowance, etc. but all of that is factored, so this is the net impact as compared to 2018-19 let us put it that way.
- Bhavin Vithlani:** Sure fair enough. The second is the UNOSUGEN PPA commissioning. We understand that from June it has started
- Sanjay Dalal:** July 1, 2019.
- Bhavin Vithlani:** So the benefit that we are seeing from the higher PLF is purely the merchant sale?
- Sanjay Dalal:** Yes.
- Bhavin Vithlani:** The impact of PPA will come from the Q2?
- Sanjay Dalal:** Correct. The PPA effect you will see from Q2.
- Bhavin Vithlani:** And that is Rs.228 Crores annualized fixed charges?
- Sanjay Dalal:** Yes. Let me give you a recap for the sake of everybody as to what is the PPA, so that you can understand it better. Essentially it is a two-part tariff as approved by CERC with some stipulations. One is that the term of the PPA will be 19 years, which is the balance life of the plant. Number two the fixed cost will be as determined under the CERC regulations, which are prevailing with a cap of Rs.228 Crores. As per CERC regulations our estimate is that for 2019-20 for 75% of the capacity we would have been given an allowance of Rs.302 Crores versus we are capping it at Rs.228 Crores. On the variable cost the fuel cost is pass through as written in the CERC regulation that ECR at actual fuel cost and normative is at 1853 Kcal less 50% share of fuel gains. There is an additional stipulation, which caps the overall landed price of power purchase which should not be more than the prevailing landed price of power in the medium term power purchase market. Broadly the reference price is 5.60. The landed cost of the three year medium power for our distribution business is 5.60 which reference has been given in the order passed by the regulator. So our overall cost should not be more than 5.60. If I remove from 5.60, Rs.1.1 paisa, which is a fixed cost allowance at Rs.228 Crores my fuel cost cap is about 4.50. At 4.50 the maximum price, which I can pay for LNG import is \$7.5 at the current exchange rate and currently the prevailing spot price is \$4 and if I buy for three years then prevailing medium-term price for LNG would be roughly around \$7. So we do not foresee this cap to affect us. We should be able to make the plant available all the time and operate it. Now if you operate this plant at 75% and do nothing more on the balance capacity then on an average UNOSUGEN will be able to break even that is it will be able to pay for its depreciation and interest cost fully.
- Moderator:** Mr. Vithlani, sorry to interrupt Sir, but if you have any followup questions we request you to rejoin the queue please. Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

- Puneet Gulati:** Just to clarify on this Agra payment issue it is a cash issue and should not impact P&L and when you get those collections from the government would you be able to get an interest on that delayed payment?
- Sanjay Dalal:** Yes it does not affect P&L. It affects the calculation of AT&C loss. I think the question for Agra was why the AT&C has gone up right. So as I said that there are two parts to AT&C one is the T&D loss, which is the core part. That has actually gone down for Agra; however in Q1, there was some payment from the government which was delayed as a result of which the collection efficiency is down, but that has not been charged to the P&L that money will come, so when that money will come automatically this AT&C calculation for six-month period will show a sharp improvement.
- Puneet Gulati:** Would you be able to get that money with interest or that does not happen?
- Sanjay Dalal:** Yes, we will get in with interest. That is what is known as delayed payment interest, DPI which is automatically paid by the customer for delay.
- Puneet Gulati:** That is all from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rahul Modi from ICICI Securities. Please go ahead.
- Rahul Modi:** Thank you for the opportunity and congratulations on good numbers. Sir just wanted to check on the update on the liquidation of regulatory assets that were created if you can help on that?
- Sanjay Dalal:** The opening number at April 1, 2019 was roughly about Rs.1, 000 Crores of regulated assets approved or under approval. Out of that Rs. 200 Crores were approved for recovery in the FY 19-20 tariff order, so that recovery is on track and we will get order for recovery as and when the true up happen for those years. We had about Rs.650 Crores odd related to disputed regulatory assets. These are not recognized in the books. We are expecting to get an order for one of the disputes in Q2. The hearing for the matter is over, but now order is reserved, so if it comes in Q2 we will know the outcome of that dispute. So this is one part of it, if you just look at Q1 on a standalone basis then in Q1 we have recognized the regulatory surplus of roughly Rs.50 Crores so which we have taken out from the revenues and taken it for opening gap. So that is sort of reflecting on the Rs.200 Crores which we have to recover. Rs.50 Crores we have recovered in Q1 actually. And on the power purchase cost which is generally on a passthrough basis because of lower fuel cost we have an over recovery of power purchase cost, which we have taken out of the P&L and again adjusted towards the opening gap.
- Rahul Modi:** Perfect Sir. Secondly just to understand things in perspective, so in case there is a time when the cost of gas sourced is more than 4.5 at a much later date, does it affect our plant availability?
- Sanjay Dalal:** On UNOSUGEN you are asking?
- Rahul Modi:** On UNOSUGEN, yes Sir.
- Sanjay Dalal:** It should not because this is to be considered on an annual average basis, so it is quite possible that I may still want to buy one cargo at \$8, it might limit \$7.5 which I defined earlier based on current market conditions. It is possible I can buy one cargo at \$8 and another cargo at \$7 and I will still be at \$7.5, so that limits are applicable on an annual basis not on individual fuel purchase. It is not necessary that each purchase should be subjected to the cap of that whatever 4.5 which we talked about earlier. Determination on an annual basis gives us flexibility to buy the fuel at different point in time sometimes lower, sometimes higher but on an average which is the cap. However, for this year and next year we are pretty confident that everything we buy will be much below our cap.
- Rahul Modi:** This is not for the near future, this is just to understand the concept, so in case there is a time, so is the availability at any point in time for the annualized basis linked to the price of fuel that we source?
- Sanjay Dalal:** Availability is entirely for the generator to declare. There are two parts to availability, one is a technical availability that the plant is capable of operating and second is commercial availability that is fuel is available, both the things are necessary to declare availability. It is entirely for the generator to declare availability. If I see that on consistent basis my fuel cost is going to be above the cap I will not declare availability and I may forego the fixed cost in that event to that extent. So that is the view we will have to continuously take. There is always a trade off whether I forego a little bit of fuel cost but will declare availability and supply because I am recovering fixed cost.
- Rahul Modi:** Right understood Sir that is very helpful. Thank you.

- Moderator:** Thank you. The next question is from the line of Kishan Shah from Isha securities. Please go ahead.
- Kishan Shah:** Good morning. I had this question. How much does it cost to setup one megawatt of thermal plant like Greenfield?
- Sanjay Dalal:** I can only guess. If it is a thermal plant it could be anywhere between Rs.7 Crores and Rs.8 Crores currently, but nobody has put in last few years so I do not really have a very good number on the current capital cost.
- Kishan Shah:** Okay and Sir I saw that at overall T&D losses have gone down to 4.8% if I am not wrong, so what are we doing, what do we do to reduce the losses that other companies have not been able to do so far and would this go further down or is this the bottom?
- Sanjay Dalal:** T&D losses actually seen in two parts. One is for our license distribution businesses, so these are the businesses we are operating for a very long period of time and we have a very modern network, very strong system both technical as well as vigilance system to detect and control theft of power to ensure that everybody pays for their power and that is all reflected in the current T&D loss there. So 4.98% was the loss level last year, this year we hope to move below 4.75%, but further reductions will of course be very marginal, because these are now mostly technical and irreducible losses. So far as the franchise business is concerned, the losses are higher but there is a still long way to review losses and we use the same experience which we have in our distribution business to upgrade the network to install sophisticated mechanism to detect and prevent theft and to ensure that everybody who consumes power pays for it, but there we still have a lot of room to further reduce the losses.
- Kishan Shah:** Okay, what kind of steps do we take to reduce the losses?
- Sanjay Dalal:** There are many, essentially as I said one is that the technical losses can be reduced by upgrading the network continuously – for example doing simple things like replacing the distribution transformers as and when they get old and in time, so that your losses remain in check or for theft simple thing you do is underground the network instead of having an overhead network and then of course you need a very strong vigilance system and the support of the local enforcement authorities to detect and control theft. So we have a very strong external vigilance mechanism which continuously monitors if there is any theft happening in any area and then take necessary steps to sort of gather evidence and prosecute the person, so routinely we prosecute the people at least in areas we are operating, we have good support of the enforcement authorities and there is a three year imprisonment if theft of electricity is proved.
- Kishan Shah:** Okay.
- Moderator:** Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.
- Rakesh Vyas:** Just to get some clarity on this UNOSUGEN PPA, so hypothetically let us say if the landed cost of gas for us is say Rs.5 per unit and you have a cap tariff of 5.6 wherein the fixed cost allowed is 1.10 as you highlighted, so in that case will you be able to sell the power through declaration of availability why I am asking this is even in this case you still get 60 paise fixed cost recovery versus if you do not declare then you will get zero.
- Sanjay Dalal:** So that is what I said in one of the previous answers that it is a trade off which we will evaluate all the time
- Rakesh Vyas:** PPA allows you to sell this power at cap of 5.6 even if your cost could be higher than that?
- Sanjay Dalal:** Yes, the offtake will be same as the cap price only, this is not affected.
- Rakesh Vyas:** So it is not a separate cost for variable cost computation ex of this fixed cost that is what I am trying to understand. The cap is on the total cost?
- Sanjay Dalal:** Yes.
- Rakesh Vyas:** Got it Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Bharani Vijayakumar from Spark Capital. Please go ahead.
- Bharani Vijayakumar:** Good morning Sir. Is it possible to break up this fix charge for UNOSUGEN of Rs.228 Crores between the various fix charges like interest or depreciation or ROE?

- Sanjay Dalal:** It would not be possible, as under the CERC regulations I would have been entitled to Rs.302 Crores and that Rs.302 Crores is capped at Rs.228 Crores, but it has not been sort of broken up in the order. I will tell you Rs.228 Crores has come from the fact that it should not be more than SUGEN fixed cost.
- Bharani Vijayakumar:** The question is whether there is any ROE component in this or not?
- Sanjay Dalal:** That is not relevant as I said that if I operate this plan at 75% PLF for the whole year then UNOSUGEN will break even, so obviously there is no ROE, it will just **breakeven** based on the 75% PPA if I am able to sell out of merchant capacity on the remaining 25% that is something **which will add to my ROE's**
- Bharani Vijayakumar:** Understood I think the line dropped. If I understand correctly so in the remaining 25% is what we are capable of making return on the equity invested not on the first 75%?
- Sanjay Dalal:** Correct.
- Bharani Vijayakumar:** Okay. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.
- Bhavin Vithlani:** Thanks for the opportunity once again. Just clarification on the UNOSUGEN, so Rs.228 Crores will be fixed for 19 years?
- Sanjay Dalal:** The principal is that whatever is available under CERC regulations or Rs.228 Crores whichever is lower and as of now, it will be applicable for the control period of FY19 20 to FY23- 24.
- Bhavin Vithlani:** Our understanding was Rs.228 Crores is fixed for the balance 19 years, so the ROE will be recovered in the later part of the PPA so that is not. And second is the cap of 5.6 fixed or it will be reviewed progressively as and when looking at Ahmedabad and Surat weighted average tariff?
- Sanjay Dalal:** This 5.6 has come from the price list which PTC did in medium-term auction . I think there the price was 4.41 which is sighted in the order and that is at the regional periphery I think. So when that is translated into landed cost for our distribution unit it translates to 5.6, now that price was discovered for a contract of three years. So this will be applicable for three years at least. Now operational details needs to be worked out with the regulator. The order does not specify how each of these will be operationalized. Our understanding is that since it is a medium-term contract price, it will be valid for three years and we will have to operate within that level for next three years.
- Bhavin Vithlani:** I understand. Just one last clarification. On the SECI-III you mentioned that worst-case negative impact could be Rs.160 Crores and there would be no further liability to the equipment supplier in case the project goes beyond the long stop date, is that understanding correct?
- Sanjay Dalal:** For SECI-III, yes.
- Bhavin Vithlani:** Thank you so much for taking my questions.
- Moderator:** Thank you. The next question is from the line of Abhishek Puri from Axis Capital. Please go ahead.
- Abhishek Puri:** One more clarification on UNOSUGEN, so this station heat rate efficiency that you get in SUGEN will be applicable for UNOSUGEN as well, so that could lead to higher than breakeven profit or is there a cap on that as well?
- Sanjay Dalal:** There is no cap on that and will be shared in 50:50 ratio as per the CERC regulation.
- Abhishek Puri:** Okay and if you can tell us what has been the expenditure in SECI-I as well and I missed that number probably?
- Sanjay Dalal:** Expenditure you want?
- Abhishek Puri:** Capex, what is plan for the rest of the year?
- Sanjay Dalal:** We do not have it right now.
- Abhishek Puri:** Sure Sir. I will take it. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

- Mohit Kumar:** Thanks for the opportunity once again Sir. Is it possible to share the regulatory asset number, opening number and how much has been booked and how much is under dispute?
- Sanjay Dalal:** I will give you broad numbers. You can pick it up from the balance sheet, there is a disclosure in the balance sheet, but I think the opening regulatory gap which is approved and approvable based on recognition in past trend is about Rs.1,000 Crores and under dispute is Rs.640 Crores or Rs.650 Crores which has not been accounted.
- Mohit Kumar:** And is that 10 billion has already accounted am I right?
- Sanjay Dalal:** Sorry.
- Mohit Kumar:** This in fact 10 billion is already accounted?
- Sanjay Dalal:** Yes.
- Mohit Kumar:** Coming onto UNOSUGEN PPA, is it possible to do coal bases indexation contract for gas?
- Sanjay Dalal:** Coal based?
- Mohit Kumar:** Indexation.
- Sanjay Dalal:** Recently some such contracts have happened internationally, but there is no way of saying that these are more beneficial than crude based price indexes which are available our study shows that oil-based indexation is best for any medium term contract for gas rather than a coal indexation.
- Mohit Kumar:** And Sir last question. Is the medium-term price which you are talking about, how does this change, is there any clarity on the mechanism or still vague right now?
- Sanjay Dalal:** Medium term price you said can you repeat?
- Mohit Kumar:** Power purchase costs which you have to compare with our gas prices?
- Sanjay Dalal:** So this order if you read already mentions the medium term price because it was just discovered.
- Mohit Kumar:** But the medium term is not define correctly in its entirety?
- Sanjay Dalal:** Medium term is not defined, but it will typically be between one to seven years as it is the standard medium term contracting in power market. This price which was discovered was a three-year contract, PTC had floated a tender for 2500 megawatts. So that is the price which is being currently used.
- Mohit Kumar:** The PPA got cancelled I think, that is the reason I am asking.
- Sanjay Dalal:** I think second PPA is not yet operationalized but I do not know whether it is cancelled or not but anyway the purpose was only price reference, and the regulator was comfortable using that as a reference.
- Mohit Kumar:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Rahul Modi from ICICI Securities. Please go ahead.
- Rahul Modi:** Thanks again. Just quick question on the SECI-I status I missed that when you are explaining, so what is the current status in that and Sir just to followup that is what is the likelihood internally that you all have in terms of operationalization of SECI-III and V whether you see that coming or not?
- Sanjay Dalal:** On SECI-I, we have 100 megawatts of projects bifurcated into two 50 megawatts one 50 megawatt project has been commissioned in July, the other 50 megawatt project is not yet commissioned and it is likely to be delayed beyond the long stop date provided in the PPA, so we are reviewing as to what is the possible commissioning date and depending on our comfort, we may either keep the project until then or we may return the project to the EPC contractor. This project was not bidded by us, it was bidded by Inox and therefore all the liability of the PPA are on Inox. So if we choose not to complete the second project with Inox then whatever investments we have made we will get back that money, because we are fully covered by bank guarantee. So those discussions are going on, we will have the final clarity in Q2.
- Rahul Modi:** Sure Sir, the issue is again with land for the second 50?
- Sanjay Dalal:** No, it is just delay by the EPC contractor, all the land is in place.

Rahul Modi: Thank you for that and just lastly for SECI-III and SECI-V between the two, which is more likely to happen according to you, obviously you would be reviewing the situation very regularly, but internally where do you see them coming on?

Sanjay Dalal: SECI-V has still lot of time available in terms of scheduled commercial operation date plus any extension that will happen in that because of the land issues, so SECI-V we do not see time limit problem. On SECI-III, as I said that time available may be lower but there is an extension possibility there also, so which is likely to happen. Today we feel that both will go ahead because the moment we feel that one of them is not going to happen we will have to book losses in the books which I explained earlier in the call. So as of now the management is of the view that both the projects will go ahead.

Rahul Modi: Thank you and all the best.

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

Dhruv Muchhal: Thank you. Firstly in the SECI-III, when do you think you will take a call if you have to go ahead with the project or no. I mean probably if you can help us in the sense how Suzlon is working on it or is it completely halted right now?

Sanjay Dalal: Suzlon of course is working on it, but given Suzlon's situation progress is extremely slow. I think we should be able to give you a more clear idea only at the time of Q2 discussion.

Dhruv Muchhal: In instance if project is coming up, does it not impact the IRR. Given there will be some delays, you are still expecting to make 14% kind of IRR?

Sanjay Dalal: No, because the costs thereto are also delayed. This delay is largely at a land stage right now. If only once we put the equipment and the equipment starts coming in and any delay will start hitting you as interest cost will kick in.

Dhruv Muchhal: Secondly, some understanding on the endeavors in Surat distribution circle, the expiry of the licenses is sometime in 2025, so what happens after that it is more of a long-term question, but what happens after that?

Sanjay Dalal: These are normally renewed for another 25 years, the procedure right now is that the incumbent operator if he is operating well it just gets renewed.

Dhruv Muchhal: On the existing terms most probably?

Sanjay Dalal: So the tariff regulations anyway based on the multiyear tariff regulations which are issued from time to time so whatever is prevailing will apply at that point in time, but the license itself will get renewed.

Dhruv Muchhal: And Sir lastly on the gas contract for UNOSUGEN do we have tie up right now or we will be looking at some tie ups I mean is the gas price freezed or we will be looking for some gas contracts?

Sanjay Dalal: We have already bought gas till December 2020 through medium term contract earlier, so that will be available for UNOSUGEN also obviously the requirement they have now additional quantity will be bought, so that is being done from time to time.

Dhruv Muchhal: Got it Sir.

Sanjay Dalal: Gas is a very liquid commodity, gas availability is not a problem, we have our own storage contract available at PLL. So we will time the market and buy it at the best possible prices all the time. Currently the spot prices are at around \$4 so it makes a lot of sense to buy gas in the spot market.

Dhruv Muchhal: And Sir lastly \$7 which you mention for UNOSUGEN is it delivered price to your plant or is it the DES price?

Sanjay Dalal: No that is DES price what they called delivered ex ship actually that is the price at the import terminal.

Dhruv Muchhal: So after that we need to add \$1.5 additional?

Sanjay Dalal: Yes \$1.5 for Regasification and transportation is what you add. **Dhruv Muchhal:** Okay got it Sir. Thank you.

- Moderator:** Thank you. The next question is from the line of Jayesh Gandhi from Harshad H Gandhi Securities. Please go ahead.
- Jayesh Gandhi:** Just a clarification out of total generation capacity of 4553.8 what capacity actually is yielding revenue to us?
- Sanjay Dalal:** Of the total generation capacity you are saying? So generation capacity is not the number which you mentioned
- Jayesh Gandhi:** Is it not 4553 because I am reading it from the annual report?
- Sanjay Dalal:** Okay that includes all the wind projects including the projects which are under development, but the thermal generation capacity is about 3100 megawatts.
- Jayesh Gandhi:** I am talking about the total capacity it includes thermal as well as renewable?
- Sanjay Dalal:** In Renewable projects which are commissioned everything is operational.
- Jayesh Gandhi:** And how about thermal?
- Sanjay Dalal:** Thermal, AMGEN plant is operational, SUGEN plant is operational, UNOSUGEN is operational from July 1, 2019 onwards so it only the DGEN plant 1200 megawatt, which is stranded right now.
- Jayesh Gandhi:** Okay in annual report it is mentioned that of the above gas fired thermal generation 1582 megawatt capacity comprising UNOSUGEN is stranded for want to demand, is it because of demand Sir?
- Sanjay Dalal:** Yes. Fuel is not a problem.
- Jayesh Gandhi:** Nothing to do with gas availability or maybe gas pricing?
- Sanjay Dalal:** As of now it is nothing to do with gas availability or gas pricing.
- Jayesh Gandhi:** And this is now only pertaining to DGEN right?
- Sanjay Dalal:** Because UNOSUGEN long-term PPA was approved.
- Jayesh Gandhi:** Okay but do we see the scenario to change in near future?
- Sanjay Dalal:** As I said that government is contemplating a scheme for revival of gas-based power plants particularly the stranded power plants are those power plants, which are operating with low PLF. If any such scheme is brought up by the government then DGEN we expect to operate at about 35% PLF.
- Jayesh Gandhi:** And that would be breakeven PLF Sir?
- Sanjay Dalal:** No certainly not at 35% you cannot break even, but it will reduce the losses meaningfully. On an average annual loss at DGEN are at about Rs.590 Crores roughly so that would be a meaningful reduction in those losses.
- Jayesh Gandhi:** Ideally the breakeven level would be 75%?
- Sanjay Dalal:** Yes approximately depends on what contract you have, but approximately that would be correct estimate.
- Jayesh Gandhi:** Thank you very much Sir that is all from my side. Best of luck for future.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question. I would now like to hand the conference over to the management for closing comments.
- Sanjay Dalal:** Thank you everyone for attending the conference and we look forward to seeing you in Q2. If anybody has any questions unanswered due to lack of time or lack of opportunity then we are available offline. Rishi or Nikita can discuss those questions with you.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Motilal Oswal Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.