“Adani Power Limited Q2 FY-17 Earnings Conference Call”

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Management:  Mr. Ameet Desai - Group-Chief Financial Officer, Adani Enterprises Limited
Mr. Vinod Bhandawat – Chief Financial Officer, Adani Power Limited
Moderator: Ladies and gentlemen, good day and welcome to the Adani Power Limited’s Q2 FY17 Earnings Conference Call. As a reminder, all participants’ lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If 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. Vinod Bhandawat – CFO, Adani Power. Thank you and over to you, Mr. Bhandawat.

Vinod Bhandawat: Good evening to all. I welcome you to the second quarter FY16-17 earning call for Adani Power. Thank you for joining us. I hope all of you have already gone through the published results. Let me take you through the company’s consolidated performance highlight for the quarter and half year ended 30 September 2016. The recently concluded quarter was marked by an improvement in operating performance and efficiency, as well as better cost optimization. In Quarter 2 FY17 the power plants run by the company and is subsidiaries registered an improved availability of 92% versus 85% in the corresponding quarter of FY16. For the first half of FY17 the combined availability factor was 90% which was an improvement over the 88% availability registered for the corresponding period of the previous year. The aggregate Plant Load Factor achieved for Q2 was 70% which was flat as compared to the PLF of the corresponding quarter last year. On a sequential basis, there was an improvement over Q1 due to resolution of water scarcity at the Tiroda power plant. However higher rainfall in the current year affected power off-take from plants at Kawai and Udupi resulting into lower PLF as compared to Q1 FY17. The PLF in Q2 FY17 in each of the plant were Mundra 78%, Tiroda 62%, Kawai 80% and Udupi 55%. The company sold 15.04 billion units in Q2 FY17 versus 15.10 billion units in Q2 FY16. For H1 FY17 and H1 FY16 the figures were 29 billion units and 31 billion units respectively.
Plant wise sales in terms of units for Q2 FY17 were 7189 MUs from Mundra, 4262 MUs from Tiroda, 2201 MUs from Kawai and 1370 MUs from Udupi. Q2 FY17 also saw an improvement in operational efficiency with aggregate auxiliary consumption reducing to 6.55% as compared to 6.69% in Q2 FY16.

We will now move forward to the financial performance for the quarter. Consolidated Total Income for the quarter increased modestly to Rs. 5,870 crores as compared to Rs. 5,784 crores in Q2 FY16, which is an increase of 1.5%. For the first half of FY17 it was lower by 2% at Rs. 11,489 crores as compared to Rs. 11,766 crores in H1 FY16.

Consolidated EBITDA for Q2 FY17 increased by 5% to Rs. 1,915 crores from Rs. 1,826 crores in Q2 FY16. As a percentage of the total revenue, it was 33% for the quarter as compared to 32%. For the first half of FY17 EBITDA increased by 12% to Rs. 3,872 crores from Rs. 3,449 crores in H1 FY16. The improvement is mainly due to an improved efficiency in billed availability as well as savings in coal cost and more efficient operations. Depreciation charge for Q2 FY17 at Rs. 598 crores was similar to Rs. 594 crores in Q2 FY16. Final charge for Q2 FY17 was substantially lower at Rs. 1,434 crores as compared to Rs. 1,650 crores in Q2 FY16. This reduction is in interest cost has been achieved through continuous refinancing efforts including the completion of 5/25 Scheme for Adani Power Limited and all its subsidiaries.

On the back of operational improvement and cost optimization we were able to reduce the consolidated Net Loss after OCI to Rs. 114 crores for the quarter from a net loss of Rs. 411 crores in Q2 FY16. Average sales realization for the quarter was Rs. 3.5 / kWh as compared to Rs. 3.47 / kWh in Q2 FY16. While merchant trade realized during the quarter was Rs. 3.3 / kWh with merchant volumes of 1331 MUs including medium term sales, as compared to Rs. 3.94 / kWh during the corresponding quarter last year. Weighted average coal cost for Q2 FY17 was Rs. 2.3 per kwh versus Rs. 2.33 per kwh.
During Q2 FY17 we recognized compensatory tariff of Rs. 510 crores the same as in Q2 FY16 of which Mundra accounted for Rs. 200 crores, Tiroda Rs. 65 crores, and Kawai Rs. 245 crores. Total external debt as on 30 September 2016 were Rs. 39,950 crores. Further during the quarter warrants of Rs. 201 crores issued to the promoters were converted. We expect the CERC order for determining the Compensatory Tariff based on the APTEL order will be delivered in November 2016.

I now hand the session to Mr. Ameet Desai, Group CFO for his comments and input.

Ameet Desai: Thank you, Vinod. Ladies and gentlemen, thank you for joining the call. As you can see, we are seeing a definitive improvement on the operating performance side. On the financing side our cost of funding, that is interest, has gone down significantly given that we have been able to get very efficient refinancing done. Going forward we expect a favorable outcome in the form of final order from CERC which would then go under subsumed proceedings in Supreme Court, and therefore we expect final resolution of this matter in the month of December or so.

With that I would hand this call back over to you for question and answer.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We have the first question from the line of Venkatesh Balasubramaniam from Citi. Please go ahead.

Mohit Pandey: This is Mohit Pandey from Citi. I wanted a data few points. Could you please share the generation figures for the four plants you mentioned the sales figures for Q2?

Ameet Desai: In terms of units generated?
Mohit Pandey: Yes, Sir.

Vinod Bhandawat: For Mundra it is 7,921 million units, Tiroda it is 4,526 million units, for Kawai it is 2,324 million units and for Udupi it is 1,462 million units. This is the generation.

Mohit Pandey: Sir, can we also have the corresponding figures for the first quarter and also the sales figures plant wise for the first quarter?

Vinod Bhandawat: I mentioned the Sales figure during the call. I can again repeat for you. Q1 Generation 7,505 million units in Mundra, Tiroda is 3003 million units. For Kawai it is 2,475 million units and for Udupi it is 2,065 million units. Q2 Sales For Mundra 7,189 million units, Tiroda 4,262 million units, Kawai 2,201 million units, Udupi 1,370 million units.

Mohit Pandey: Sir and one more data point. What will be the contracted sales and tariff for the quarter?

Ameet Desai: So you want PPA tariff?

Mohit Pandey: Yes, sir.

Vinod Bhandawat: PPA tariff for the quarter 2.95 for APL, for APML 3.13, for EPRM 3.39, for UPCL 4.52.

Mohit Pandey: Okay and sir in terms of sales?

Ameet Desai: Sales number we just now gave you the volume units.

Mohit Pandey: So I mean for the first quarter?

Ameet Desai: No, I think that we will give you offline. Let us take other questions.

Moderator: Thank you. We have the next question from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia: This is a question on debt. So you said the external debt is Rs. 39,950 crores, what is the total debt including working capital and support from group entities?
Vinod Bhandawat: ICD debt is about Rs. 6,800 crores and working capital debt is Rs. 5,500 crores.

Girish Achhipalia: Okay fair enough and just a follow up in terms of Udupi’s contribution during the quarter revenue, EBITDA and PAT if you can help with those numbers? And the PLF was quite low for this quarter I mean how are we expecting I mean any specific issues?

Vinod Bhandawat: Udupi’s contribution during the quarter we had an EBITDA of Rs. 270 crores and PAT of Rs. 35 crores. The Udupi performance was lower because of the annual plant shut down of one of the units which was already planned.

Moderator: Thank you. We have the next question from the line of Anirudh Gangahar from Nomura. Please go ahead.

Anirudh Gangahar: One question. Any update on the Uttar Pradesh bids that we were L1 for?

Vinod Bhandawat: Anirudh, those bids are still pending finalization. The LOAs are yet to be given.

Ameet Desai: We are at LOI stage you can say.

Anirudh Gangahar: It is still in a waiting mode, any progress on that or we are still waiting for the government to come back?

Ameet Desai: I think we have to wait for them to come back with their next step in terms of LOI and then PPA.

Anirudh Gangahar: Okay and the second question was that in Tiroda based on the Notes to Accounts the compensatory tariff is is flat quarter-on-quarter but your PLF is up from 40% to about 60%. Any particular reason why the compensatory tariff is still flat?

Vinod Bhandawat: It is largely this is more linkage coal. So based on the linkage coal the compensatory tariff is low.
Anirudh Gangahar: Okay sir would you be able to help us with the coal mix please?

Ameet Desai: I think that is something which we can take offline. But I think as much as we have provided final coal consumption and then we have the Compensatory Tariff figures, it gives you a pretty much clear picture. But we can take that offline.

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

Amit Golchha: Sir, my first question is in this quarter EBITDA is lower than the last quarter QoQ by about Rs. 100 crores and I am excluding the other income part of it, but this is despite your PLF improvement. So just want to understand what is leading to this reduction?

Vinod Bhandawat: There are two factors which are leading to this. One is merchant realization because of wet season was lower compared to the other quarter. So we had a lower merchant realization. So that is an impact of about Rs. 55 crores to Rs. 60 crores. And balance is because of the mix of Sales under various PPAs in APL.

Amit Golchha: Okay, so you mean to say within the plants between the plants the mix was in favor of lower tariff PPAs?

Vinod Bhandawat: Yes.

Amit Golchha: And sir, going forward if I look at this EBITDA number, where are the improvement possibilities in to the efficiencies or below EBITDA interest cost reduction, anything which is still not in the number? So for example that Tiroda one unit was to start, has that started, the last unit?

Vinod Bhandawat: You know one among various data point which will improve performance going forward. That is your 440 MW PPA which will come to effect. Of course, it has not resumed in this quarter, but we expect it definitely from February 2017 that PPA will start because that is the date where 440 MW becomes contractually effective. The
second effect will come in Kawai wherein we have won substantial quantity of coal in special forward e-Auction. So Kawai we will see lot of more domestic coal going into the business. So that should also reduce the overall cost. And as Ameet Bhai mentioned Udupi also will have improved PLF and availability in the quarters to come. Plus we expect promoters’ equity infusion which also help in reducing the interest cost over a period of time. So these are three, four things which are there in our hands which should improve the EBITDA in the quarters to come.

**Amit Golchha:** Sir, Udupi how much was the PAF this quarter?

**Vinod Bhandawat:** PLF was 55%.

**Amit Golchha:** Yes and PAF availability factor was?

**Vinod Bhandawat:** 68%

**Amit Golchha:** 68% so there was some under recovery in this quarter?

**Vinod Bhandawat:** Yes, there was under recovery.

**Amit Golchha:** Okay and Sir in Tiroda if PLF improves, I just want to understand, will we make higher EBITDA in terms of for every unit excluding compensatory tariff, are we making a positive spread?

**Vinod Bhandawat:** Amit, if you like to take it offline but definitely higher volume will improve.

**Ameet Desai:** Answer is yes but if you want details it can be taken up on an offline basis.

**Amit Golchha:** No problem, sir thank you. And second question is on Tiroda actually compensatory tariff reduced significantly from Q3 onwards last year, sorry Q4 onwards, Q3 was very high. Q4 reduced and Q1 and Q2 this year is very low. So I just want to recollect what exactly happened during this period, sir?
Ameet Desai: I think the previous question also included this query and as Vinod explained this is a function of how much coal will be end up getting in a quarter under our linkage and how much we have to then procure under e-auction and how much is then the balance coal that we have to procure which is imported. So I think that is how. Our suggestion is please do not see the trend in one quarter to be following up in the next quarter, but overall if you have to look at Tiroda what Vinod was trying to explain was that 440 MW PPA will be operational effective February '17. Our efforts are on to make it effective even earlier. With better availability of the domestic coal, and of course getting into the dry season post the monsoons, we think overall growth prospects are likely to be better in the second half than what we have seen in the first half.

Moderator: Thank you. We have the next question from the line of Archit Singhal from Nomura. Please go ahead.

Archit Singhal: Few questions from my side. Sir, firstly if you could share the change in law related component at each of the plants?

Vinod Bhandawat: Change in law is no2 part of revenue so we do not track it separately also.

Ameet Desai: Yes, I think the Compensatory Tariff numbers that Vinod mentioned in the beginning are relevant number. Change in Law is now embedded in our normal revenue.

Archit Singhal: No sir, I understand that but every quarter we share this in the conference call so that is for the comparability purpose for us?

Ameet Desai: I think you can take it offline but my request and suggestion would be that in as much as Change in Law is part of the revenue, without trying to sound argumentative, that way we can get into analysis of the variable portion of the energy charges and the fixed portion, etc., which keeps varying. But overall, I think directionally, now change in law is part of the normal revenue.
Archit Singhal: Okay so and are we realizing the change in law component at each of these?

Vinod Bhandawat: We are not getting Change in Law revenues from every DISCOM. We’re getting it from Gujarat, Maharashtra, and Rajasthan has also started paying. We are not getting it only from Haryana. For Haryana we are just waiting for the CERC order which is expected very soon hearings are over, and the cash flow will immediately take effect.

Archit Singhal: Okay sir, a few data centered queries. Firstly, what was the reason for spike in other income seen in this quarter?

Vinod Bhandawat: The other income is basically on the funding that we have done to Korba wherein we have interest income on loans and advances to Korba West.

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

Abhishek Puri: Sir, two questions. One on the interest cost. So what will be the cost on the external debt and the working capital debt?

Vinod Bhandawat: So our weighted average cost for this is about 10.5% which includes the working capital.

Abhishek Puri: 10.5%?

Vinod Bhandawat: Yes.

Abhishek Puri: And any plans to issue bonds etcetera because the cost otherwise has come down in the market?

Ameet Desai: We are obviously keeping all our options open and keep working on that. I think once we have clarity in the form of CERC orders then we would obviously have the reason to work with the rating agencies and then we will make our plans.
Abhishek Puri: Secondly, the international coal prices have gone up. So just to understand a bit I mean the variable cost will move up over the next couple of quarters if it all based on the index tariff. Would the compensatory tariff also equivalently move up fast?

Ameet Desai: Yes. The short answer to your question is, yes.

Abhishek Puri: Okay so they should not ideally with the increase in the coal prices there should not be much of an impact on the bottomline or EBITDA per se?

Ameet Desai: Yes.

Moderator: Thank you. We have the next question from the line of Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh: My first question is regarding there has been news flow about government trying to help the power sector. Is there anything that you can add to it or any expectation that you have from the government in case of how the plants which are currently not seeing full utilization or PPA is not getting signed? And how can the government kind of help, in that there is also talk about government or government agencies picking up stakes or something like that. Is there something of that sort which is also being which Adani Power is open to?

Ameet Desai: I think fortunately we are not amongst those power plants which will need this benefit of this kind of policies of the government. My understanding about the question that you are asking pertains to those projects where because of the last mile funding either their completion is held up or they have been completed but they do not have PPAs etcetera. Fortunately as you know, we have all plants up and running. About 83% to 85% of our capacity is tied up under long term PPAs. So I do not think we are covered by the situation that you just described, fortunately.

Inderjeet Singh: Okay and the second question that I have is recently and I think which is related to the previous question also. Recently RBI came out with a
circular prescribing the limits of the debt which a bank can have, an exposure to a certain company. Is there an understanding that you have that those prescribed limits are either for a project level or would it apply to the entire company level? And if it applies to the companies that would mean that we would need to raise significant amounts of bonds from the market. Would that mean our cost of borrowing are actually rise going forward? And that is it from my side.

Ameet Desai: So I think Part 1 to your question is we are well below these limits, and as I explained to one of the previous questions that as we get the compensatory tariff issue resolved, we would start working with the rating agencies and diversify our sources of debt from the bond market, etc. So all in all even with improved performance in existing loans, we can look forward to reduced cost of borrowing in the times to come. But with debt changing its form from loan to bond, we expect we will be having additional benefit in the form of reduced cost of interest.

Inderjeet Singh: So if I am right your understanding is that the debt limit prescribed there are actually at a project level and not at a company level?

Ameet Desai: I think we would not get into that discussion that is for banks to clarify. Our current understanding is we are well within those limits is all I would say.

Moderator: Thank you. We have the next question from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: Sir, my question is related to Compensatory Tariff. So what is the cumulative Compensatory Tariff that is being booked so far as of September quarter and is recognized on the balance sheet?

Ameet Desai: The total up to 30th September is slightly over Rs. 8,000 crores that we have recognized. Our recognition does not involve certain PPAs and therefore our claim amount as we work out is even more than that. But we will not get into those details. It is slightly over Rs. 8,000 crores
that we have recognized in the books and which is adequately disclosed in our notes.

**Sumit Kishore:** So of the Rs. 510 crores that was recognized in this quarter, is there some element which is coming to you on a quarterly basis?

**Ameet Desai:** The Compensatory Tariff, not yet. Change in law fully, yes, except for Haryana where the order is awaited.

**Sumit Kishore:** So on a cash flow basis what is the sort of leakage that has happening right now on a steady state basis?

**Ameet Desai:** I think one has to look at cash flow from operations, cash flow from change in working capital facilities and cash flow from financing of equity. So I think our normal disclosure is do not pertains to the cash flow except for the operational cash flow which comes in the annual results. So we will keep this offline please. Qualitatively, as a quarter-over-quarter we will see ourselves being better.

**Sumit Kishore:** Okay I will take this offline, thank you so much.

**Vinod Bhandawat:** There is no cash loss.

**Moderator:** Thank you. We have the next question from the line of Archit Singhal from Nomura. Please go ahead.

**Archit Singhal:** Sir, two follow up questions. One is when do we expect Korba transaction to be completed?

**Vinod Bhandawat:** We expect it to get completed in ensuing quarter.

**Archit Singhal:** In the third quarter?

**Vinod Bhandawat:** Yes.

**Archit Singhal:** Okay and sir secondly if you could share the foreign exchange component which is included in the interest cost?
Vinod Bhandawat: We have ECB of Rs. 8,700 crores.

Archit Singhal: I did not get, in the interest cost of around Rs. 1,400 crores what is the FX component?

Vinod Bhandawat: You want the FX. Okay I will give you offline.

Ameet Desai: Offline we will be able to give you. Just one second, Vinod will provide you with that number.

Moderator: Thank you. We have the next question from the line of Venkatesh Balasubramaniam from Citi. Please go ahead.

Mohit Pandey: This is Mohit Pandey again. I just wanted to confirm the Q1 sales numbers, I think I have not taken them down correctly. For the second quarter Mundra 7,189 million units, Tiroda 4,162 million units, Kawai 2,201 million units and Udupi 1,370 million units. Is that correct, sir?

Ameet Desai: Just one minute I would rather read out all the numbers. Mundra for Q2 generation is 7,921 million units. Net units sold is 7,189 million units. Mundra first quarter of this year: generation 7,505 million units, sold 6,766 million units. Tiroda generation this quarter is 4,526 million units, sold 4,263 million units. First quarter: 3,003 million units generation, 2,886 million units sold. Kawai, second quarter generation 2,324 million units, sold 2,201 million units. First quarter generation 2,475 million units, sold 2,345 million units. Udupi this quarter generation 1,462 million units, sold 1,370 million units. Udupi previous quarter generation 2,065 million units, sold 1,943 million units.

Mohit Pandey: And sir, just last question. Merchant units sold in the first quarter?

Vinod Bhandawat: You want for the first quarter?

Mohit Pandey: Yes sir, that is correct.

Ameet Desai: That we will give you offline.
Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the floor over to Mr. Vinod Bhandawat for closing comments. Thank you and over to you, sir.

Ameet Desai: So, thank you all. As we could show the performance is very consistently and steadily improving and we expect, we are more confident and optimistic for the next quarter and certainly the next half of this fiscal. We look forward to resolving the balance question answer offline for those detailed information that some of you sought. And otherwise you are most welcome to write to Vinod whenever you have any clarification or information requirement. Thank you all very much.

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