Adani Power Limited Q3 FY-17 Results
Conference Call

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Ladies and gentlemen good day and welcome to the Adani Power Limited Q3 FY17 Results Conference Call. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vinod Bhandawat-CFO, Adani Power Limited. Thank you and over to you sir.

Vinod Bhandawat: Thank you, a good afternoon to all. I welcome you to the 3rd Quarter FY 2016 - 17 earnings call for Adani Power Limited. I hope all of you have already gone through the published results. Let me take you through the company's consolidated performance highlights for the quarter and nine months ended 31st December 2016. On the regulatory front, we have finally received the order from CERC granting release to the Mundra plant under Force Majeure as directed by the APTEL. The order has been submitted to the honorable Supreme Court for its permission for implementation.

On the operational front, the recently concluded quarter was marked by an improvement in technical availability and lower auxiliary consumption, despite a drop in aggregate PLF. In Q3 FY17 the power plants of the Company and its subsidiary registered and improve availability of 94% compared to 93% in the corresponding quarter of FY16. For the first nine months, the availability was 91% compared to 90%. The aggregate PLF for Q3 was 69% which was lower compared to the corresponding quarter last year. On a sequential basis there was a slight deterioration over Q2 FY17, as an improvement in PLF at Tiroda and Udupi was offset by lower PLF at Mundra and Kawai. The reasons behind lower PLF were shortage of domestic coal at Kawai plant, and lower merchant prices as well as backing down
by customers. The PLF in Q3 FY17 at each of the plants was Mundra 71%, Tiroda 69%, Kawai 44% and Udupi 88%.

The company sold 14.9 billion units in Q3 FY17 versus 16.6 billion units in Q3 FY16. For YTD FY17 and FY16 the figures were 43.9 billion units and 47.6 billion units respectively. Plant-wise sales in terms of net units sold for Q3 FY17 was 6603 Million Units for Mundra, 4861 MU from Tiroda, 1233 MU from Kawai, and 2196 MU from Udupi.

We now move forward to financial performance of the quarter. Revenue for Q3 FY17 reduced marginally to Rs. 5,873 crores versus Rs. 6,211 crores in the corresponding quarter of previous year which is a reduction of 5%. For YTD FY17 it was lower by 4% at 17,362 crores as compared to 17,977 crores for the comparable period of FY 16. Average sales realization for the quarter was Rs. 3.58 per kWh as compared to Rs. 3.42/kWh in Q3 FY16. While composite merchant and medium term rate realized during the quarter was 3.41 per kWh, with merchant and medium-term volumes of 964 MU as compared to Rs. 3.46/kWh during the corresponding quarter last year with merchant volume of 1383 MUs.

Weighted average fuel cost for Q3 FY17 was Rs. 2.47/kWh versus Rs. 2.27 per KWH. For YTD FY17 the average sales realization was Rs. 3.58 / kWh, while the coal cost was Rs. 2.34 kWh. During Q3 FY17 we recognized compensatory tariff and CCEA relief of Rs. 480 crores, which was lower than Rs. 518 crores for Q3 FY 16. Of this, Mundra accounted for Rs. 344 crores, Tiroda Rs. 42 crores and Kawai Rs. 94 crores. Consequent to booking of lower revenues, including lower capacity charge recovery in some units, consolidated EBITDA for Q3 FY17 reduced by 16% to Rs. 1708 crores from Rs. 2030 crores in Q3 FY16. The EBITDA percentage was 29% for the quarter as compared to 32% in the corresponding quarter last year. For YTD FY17, EBITDA reduced
by 1.8% to Rs. 5,480 crores from Rs. 5,580 crores in the first nine months of FY16. Finance charges for Q3 FY17 were higher at Rs. 1,430 crores as compared to Rs. 1,318 crores in Q3 FY16, while for YTD FY17 and nine months of FY16 they were Rs. 4,315 crores and Rs. 4,416 crores respectively.

On a quarterly basis the higher level of interest charge is due to greater utilization of working capital limits and impact of mark to market on foreign currency derivatives. The lower operating profitability as well as higher interest charges for the quarter have resulted in net loss after OCI of Rs. 325 crores for Q3 FY17 as compared to a net profit of Rs. 104 crores for Q3 FY16. For the nine months period the net loss of YTD FY17 was Rs. 473 crores which is slightly lower than Rs. 479 crores net loss for the same period of FY16. I now hand the session over to Ameet bhai, our group CFO for his comments and inputs.

**Ameet Desai:**

Thank you Vinod. Ladies and gentlemen good afternoon. I have just two brief comments that there has been a mixed bag in terms of our operating parameters, though most of them are positive. However, most importantly, the second point as all of you know is on the regulatory front. We received the order from CERC which grants us relief and brings certainty to what we have been seeking for few years now. We hope for an expeditious favorable disposal of the matter at Supreme Court for its permission for implementation. Now I request the participants to put up their questions for further answers from our side. Thank you.

**Moderator:**

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Prakash Gaurav Goel from ICICI Securities. Please go ahead.
Apoorva: Hi sir this is Apoorva from ICICI Securities. I wanted to understand that quarter-on-quarter your fuel cost has gone up and yet the compensatory tariff recognized has gone down, why is that?

Vinod Bhandawat: If you compare Mundra compensatory tariff, it is in line with the earlier quarter, but in Tiroda we have got lot of domestic coal, which why compensatory is lower.

Apoorva: So because of increased domestic coal usage in Tiroda so basically the spike was so high in the international imported coal that rate sort of led to a lower compensatory tariff?

Vinod Bhandawat: Yes, because we had some inventories at old cost so the cost is not fully reflective of the increase in the HBA.

Apoorva: So now with the prices coming down should we expect this to come down this high fuel cost going forward? What is the lag typically I think it’s one quarter lag right?

Vinod Bhandawat: No, HBA is not with a one quarter lag but rather almost 45-50 days lag is there.

Apoorva: On this regulatory order CERC quantification, last time when APTEL passed on this Force Majeure judgment we recognized this one time exercise on regulatory compensatory tariff based on the similar lines for other plants as well, right? Now what we are seeing is CERC has given a drastically lower quantification, so why are we still recognizing with the old number and not taking the new calculation quantification while recognizing CT tariff?

Vinod Bhandawat: Let me clarify this, one is the CERC order applies only to APL Bid 2 and Haryana and for APML we have a separate order from MERC. These orders are not identical so definitely the recognition only happens as per the regulatory orders that we have for the PPAs.
Apoorva: I am saying when the APTEL passed its judgment in your favor regarding the benefit of forced majeure, during that quarter we took a large compensatory tariff recognition for plants which were not actually covered in that litigation but had a similar issue stating the same thing that since APTEL passed on this order we expect this to be applied to other cases as well going forward. Now that CERC quantification has come which is far lower than what we had expected given that they are not asking for the USD/INR exchange rates difference and all as a bail out. So now why are we not taking as a rate when we recognize the compensatory tariff for this quarter?

Ameet Desai: So when the APTEL orders came at that point of time the spike that you are referring to or describing as, was in case of our Rajasthan subsidiary Adani Power Rajasthan Limited. Prior to that we were taking a much smaller portion of Compensatory Tariff and our own internal calculation was of course higher than that. With the APTEL order our position was reinforced and that’s why we started recognizing what was the expected Compensatory Tariff realization based on that APTEL order. So that’s why you could have possibly noticed the spike in that quarter. I don’t have those numbers in front of me but we do remember that fact.

Now your second part of your question or your observation where you use an expression that after the CERC order our tariff receipts is likely to be significantly lower than what we had predicted. Let me tell you it’s not going to be significantly lower because in case of APL, the main holding cum operating company, we have been only consistently recognizing Compensatory Tariff for two out of the three PPAs and that is the practice that we have even continued after the CERC Order in this particular quarter, because we do not want for one or two quarters once again changed the method of recognition. To that extent, inasmuch as we have not recognized full Compensatory
Tariff for a significantly sized PPA, I think we are a bit on conservative side if at all based on our internal calculation. We would request that we have to bear through this process till we get a final resolution. After that, we would be recognizing the previously unrecognized portion of Compensatory Tariff for the third PPA in APL also. At that time it would very clearly bear out our current position that what we are likely to get at a lesser extent in the instance of two PPAs, but may get compensated to some extent overall for three PPAs.

**Apoorva:** What is the update on this case, what was there in the news and media as this resolution Supreme Court is likely to pass an order in this month itself in the month of January, so is there any clarity on that by when is the order expected?

**Ameet Desai:** I believe that whenever the matter is in any Court of law, let alone Supreme Court, it would be imprudent for anyone to predict publicly when and what outcome would come. We are going through the due process. The matter gets heard one date after the other and we have to wait for the matter to get fully heard and then the order to come. So, we would not hazard any guess as to when the order would come, but the way it is moving we expect that the matter will get resolved in the near future. That's our hope.

**Moderator:** We take the next question from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

**Abhishek Puri:** Sir what is the proportion of domestic coal versus imported coal for Kawai plant? Just wanted to understand because the compensatory tariff for this quarter booked has been quite lower than the previous two quarters?

**Vinod Bhandawat:** In Kawai we used 60% domestic and 40% imported coal in Q3 FY17
Abhishek Puri: And has the ratio changed from the second and first quarter?

Vinod Bhandawat: Yes.

Abhishek Puri: So what would that be in case it is available?

Vinod Bhandawat: Kawai 90% was imported in the previous quarters.

Abhishek Puri: And this is all e-auction coal?

Vinod Bhandawat: Yes.

Abhishek Puri: Is there any talk of linkage being offered to us or we have to participate in the upcoming auctions maybe for linkage?

Ameet Desai: We understand the government is formulating a framework and policy for all the companies with PPA to participate in the e-auction for the linkage. Once it comes out it would be clear to all of us.

Abhishek Puri: What is your expectation from the CERC 2 or the Force Majeure formula that has come through? What do your calculations suggest versus the first review under the Compensatory Tariff? How much is the differential between the two formulas on a like to like basis?

Ameet Desai: At this point of time it would be premature for us to give you any view on that because we have to wait for the final outcome.

Abhishek Puri: But in terms of the formula if you have done some exercise or maybe your team can share some numbers like that?

Ameet Desai: But I think it may not be advisable for us to give out our estimates at this juncture.

Moderator: We take the next question from the line of Archit Singhal from Nomura. Please go ahead.
Archit Singhal: Three questions from my end, first is could you tell the change in law related component at each of the plants in third quarter?

Ameet Desai: It is part of the revenue. We clarified this in the last quarterly call and even previous quarter because I think change in law becomes part of the normal revenue and therefore we do not even see it differently.

Archit Singhal: Because we used to disclose it previously as a separate...

Ameet Desai: No I think not for past two quarters.

Archit Singhal: And secondly on the coal quantity consumed at each of the plants if you could tell the number?

Ameet Desai: You had three questions, can you tell me the...

Archit Singhal: Third question is on debt basically, what is the debt as of December?

Ameet Desai: I think our debt is not really materially varied from what it was in September; total long-term external debt is about Rs. 42,000 crores.

Archit Singhal: And working capital?

Ameet Desai: Working capital would be about Rs. 6,000 crores. But a large part of working capital almost 80% of that or more would be non-fund based. So I'm giving it over to Vinod for him to give you the coal quantity, just a broad division between domestic and imported.

Vinod Bhandawat: APML 3.14 million tonnes largely domestic, and for Kawai it is 0.68 million ton, domestic is 0.4 million ton, Mundra it is 3.64 Million Tonnes, all imported and Udupi 1 million tonnes all imported, total about 8.45 million tonnes.
Moderator: We take the next question from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: I just wanted to clarify on your answer to one of the previous questions. In the notes to accounts it is specified that for Bid I of Mundra you have taken compensatory tariff for Rs. 106 crores during the quarter. So my understanding was that Bid I is for the first GUVNL set of PPAs, is that right?

Vinod Bhandawat: Yes that's correct. We would like to clarify that for Bid I we have only recognized CT from 1st April 2015, while from COD till March 2015, we have a large amount of CT that has not been recognized yet.

Sumit Kishore: So that's the buffer which Ameet bhai was saying that we can?

Vinod Bhandawat: Yeah.

Ameet Desai: Sumit, inasmuch as I did not clarify that part of the question my apologies. What Vinod says is very clear that from COD till 31st March, '15 we haven't recognized any -compensatory tariff for Bid I, from 1st April '15 onwards we have been recognizing that.

Sumit Kishore: Just one more clarification, my understanding is that some part of the linkage coal for Mundra is currently being used at Tiroda after the CERC order post the calculations that they gave would there be some domestic coal that would have to be used at Mundra once again?

Vinod Bhandawat: It's not necessary.

Sumit Kishore: You can continue to use 100% imported coal at Mundra?

Vinod Bhandawat: Yes.

Moderator: Thank you.
Vinod Bhandawat: Thanks for joining our call and hope to speak to you in next quarter.

Moderator: Thank you. On behalf of Adani Power Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.