“Adani Power Limited Q4 FY-2016-17 Earnings Conference Call”

May 27, 2017

MANAGEMENT:  MR. VINOD BHANDAWAT – CFO, ADANI POWER LTD.
Moderator: Ladies and gentlemen good day and welcome to the Adani Power Limited Q4 and FY 2016-17 Earnings Conference Call. As a remainder, 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. 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. Thank you and over to you Mr. Bhandawat.

Vinod Bhandawat: Thank you Aman, Good afternoon to all. I welcome you to the Earnings Call for the fourth quarter FY16-17 for Adani Power Limited.

Thank you for joining us. I hope all of you would have already gone to the published results. Before we delve into the operational highlights for the quarter, I would like to speak about two important developments that have taken place in these initial months of FY18.

Firstly, the long-awaited announcement of the Hon’ble Supreme Court judgment on the compensatory tariff matter for Mundra took place on April 11, 2017. There are some noteworthy aspects of the judgment that I would like to point out:

Firstly, PPA signed for the Mundra Project with GUVNL and Haryana Utilities constitutes a Composite Scheme under the Electricity Act 2013. This gives the CERC regulatory power over the PPA and allows it to rule over the matters such as tariff, change in law, etc.

Secondly, the Supreme Court has granted relief for cost burden arising due to shortage in supply of domestic coal under Change in Law provisions for which, it has asked the CERC to work out the compensation.
Thirdly, the court has not granted relief on account of increase in coal cost due to change in Indonesian regulation. However, the ruling also opens up a window for APL Mundra to approach CERC under section 79(1)(b) of the Electricity Act 2013, under its regulatory powers where there are no guidelines framed or where the guidelines do not deal with the given situation.

In light of this judgment, we have decided to write off the receivables against the Compensatory Tariffs of the Mundra project and that we have recognized in the past, after the CERC order of 2014, the details of which have been adequately explained in the notes. The impact of this adjustment is apparent in the fourth quarter result of FY17. The company has engaged with stake holders for possible remedial measures for long-term sustainability of the Mundra plant.

The second important development is the recent announcement of the new coal linkage policy for the power sector. The new policy makes it possible for plants that presently do not have linkage, like Tiroda and Kawai, to apply for and receive linkage for domestic coal. We believe that an assured supply of domestic coal will help these projects reduce their reliance on imports and open market purchase, and do away with the need for compensatory tariffs for our plants going forward.

Now let me take you through the consolidated performance highlights for the quarter ended March 2017:

During the quarter, we saw all plants recording improved operational efficiency over third quarter of FY17, average availability improved significantly to 98% in the fourth quarter versus 94% in the third quarter of FY17 and 95% in the fourth quarter of FY16. The aggregate PLF for Q4 FY17 was 73%, which was an improvement over Q3 PLF of 69%, but was lower as
compared to 79% PLF for Q4 FY16. The primary reason for lower PLF in Q4 was customer backdown at Mundra and Udupi.

The PLFs in Q4 FY17 individually for each plant were Mundra 76%, Tiroda 71%, Kawai 78% and Udupi 78%. The company sold 16.3 billion units in Q4 FY17 versus 17 billion units Q4 FY16. For FY17 and FY16, the figures are 60.2 billion units and 64.6 billion units respectively.

Plant-wise sales in terms of net units sold for Q4 FY17 was, 6952 million units from Mundra, 5287 million units from Tiroda, 2156 million units from Kawai and 1902 million units from Udupi.

Q4 FY17 also saw an improvement in operational efficiency with auxiliary consumption reducing to 6.03% as compared to 6.3% in both Q3 FY17 and Q4 FY16.

We now move forward to the financial performance for the quarter:

Revenue for the fourth quarter FY17 reduced to Rs. 6,586 crore versus Rs. 7,756 crore in the corresponding quarter of the previous year which is a reduction of 15%. This is largely due to the compensatory tariff which was recognized in the previous quarters for Rajasthan and Mundra.

Average PPA realization for fourth quarter FY17 was Rs. 3.46 / kWh as compared to Rs. 3.383 / kWh in Q4 FY16. The merchant term and medium-term rates for the quarter was Rs. 2.7 / kWh and volume of merchant sales was 963 million units.

Weighted average fuel cost went up during the quarter in Q4 FY17. It was Rs. 2.67 per kWh.

During Q4 FY17, we recognized Compensatory Tariff of Rs. 253 crore, which is significantly lower than the Rs. 1376 crore recognized for Q4 FY16. For fiscal 2017, the Compensatory Tariff
recognized was Rs. 969 crore, while it was Rs. 2,971 crore for FY16.

Of this in Q4 FY17, Tiroda accounted for Rs. 69 crore and Kawai was Rs. 184 crore. For Fiscal Year 2016-17, Tiroda accounted for Rs. 243 crore and Kawai accounted for Rs. 726 crore. For FY17, there is no Compensatory Tariff recognized for Mundra.

Consolidated EBITDA for Q4 was Rs. 1,556 crore and for fiscal FY17 EBITDA was Rs. 6,391 crore. Finance charges for Q4 FY17 were marginally higher at Rs. 1,586 crore compared to Rs. 1,547 crore in Q4 FY16. The increase during Q4 FY17 was primarily due to one-time mark to market of currency derivatives.

Consolidated project debt including ICD as of March 2017 is approximately Rs. 46,500 crore. The debt on APL standalone books is Rs. 24,700 crore, in APML it is Rs. 12,400 crore, in APRL it is Rs. 5,775 crore and in UPCL Rs. 3,660 crore.

I will now like to open the floor for the Q & A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: Thank you for the opportunity sir. Could you share with us the financials for Tiroda and Kawai separately please. Revenue is a EBITDA and PAT as used to give earlier.

Vinod Bhandawat: Q4 EBITDA for Tiroda is Rs. 634 crore for Q4, Kawai it is Rs. 376 crore.

Abhishek Puri: And for the full year. EBITDA and PAT both if you can give us.

Vinod Bhandawat: PAT for Tiroda is negative for the quarter is Rs. (-102) crore and Kawai it is almost flat, Rs. 8 crore. For the full year, EBITDA for
Tiroda is Rs. 2,411 crore and for Kawai it is Rs. 1,278 crore EBITDA. PAT for Tiroda is Rs. 217 crore and Kawai is Rs. 15 crore.

**Abhishek Puri:** Okay in terms of the Mundra now we are clear with the strategy that the Compensatory Tariffs are not coming through and we have written to Gujarat Government also that the supplies will not be viable, so what is the likely solution now for Mundra. Tiroda and Kawai, we believe still are cash positive and can service the debt.

**Vinod Bhandawat:** For Mundra, we are in discussion with the Gujarat Government and GUVNL, mainly with GUVNL. Nothing has been crystallised as yet, but we are trying that some solution has to be found out, whether it is a joint petition or coal pass through solution or some other structure, wherein we can make Mundra plant sustainable, but as of now nothing much concrete been finalized. We are working very closely with GUVNL.

In the meantime, we are trying to optimize whatever best we can do in terms of seeing that we have lower coal cost and better operational efficiencies and whatever can be done to see that we cut down our losses in Mundra to the extent possible.

**Abhishek Puri:** So, we will be operating the plants in that case.

**Vinod Bhandawat:** Yes as of now, we are operating the plant, not of course fully, one part of the plant is not in operation but that is only a temporary thing. If you would have noticed the coal cost is also coming down and with the lower coal cost we will be able to achieve our normative levels. We are trying to cut down the losses in Mundra.

**Abhishek Puri:** On the Haryana PPA that you have, there again up to the extent of domestic coal linkage, will that cost or the compensatory tariff be pass through right.

**Vinod Bhandawat:** Yes.
Abhishek Puri: And what would happen if because you have not booked any CT for that project right now.

Vinod Bhandawat: Yes, so we have already filed a petition in CERC and we are waiting for CERC to determine our formula to calculate the CT, so we will get some amount of CT there to the extent of shortfall.

Abhishek Puri: Understood and lastly if you transfer coal, since coal is now fungible and you can transfer say Mundra coal to Tiroda and get a more imported coal to the Mundra plant, how would the CT mechanism work then in that case?

Vinod Bhandawat: To the extent of my shortfall in linkage, due to the shortage of linkage for the Haryana PPA, I am entitled to get CT, whether it is used in Mundra or elsewhere it doesn’t make a difference.

Abhishek Puri: Okay, so up to 30% you have linkage so up to 30% CT will be given to you whatever coal you may use, understood, thank you sir, I will come back in the queue.

Vinod Bhandawat: Thanks Abhishek.

Moderator: Thank you. We have the next question from the line of Murtuza Arsiwalla from Kotak Securities. Please go ahead.

Murtuza Arsiwalla: Just a couple of questions, one in terms of our plants, how are they configured, and then what is the extent of domestic coal we can use across various plants? Second, if I look at the standalone quarterly numbers there seems to be a sequential jump in the depreciation cost. If you could explain that part, and third in your reported numbers there is a line item on purchase of goods in trade. If you could explain what that exactly is?

Vinod Bhandawat: Let me take your last question first, purchase of goods in trade on the standalone or on the consolidated books?

Murtuza Arsiwalla: in both the places, so what does that really represent?
Vinod Bhandawat: See in the consolidated books it represents purchase of any power for commitment for say the Tiroda project or purchase of power mainly, and on a standalone basis it is whatever inter plant transfer of coal from Mundra to Tiroda, is the number figuring in the standalone books. And your second question was on increase in the finance cost on sequential basis.

Murtuza Arsiwalla: Yes and even the depreciation.

Vinod Bhandawat: Yes, so finance cost is basically because we had a derivative position and this is a mark-to-market loss on that derivative position. This is a one-time item. Depreciation increase is largely on account of the government grant accounting, wherein the PPE has increased to the extent of government grant received, and because of the increase in PPE, the depreciation charge has gone up. There is no impact on the net result per se because it is added in the revenue and then it is reduced.

Murtuza Arsiwalla: Yes and the first question itself which is in terms of the fungibility between imported coal and domestic coal for various plants?

Vinod Bhandawat: We can use imported coal in all the plants on a blended basis. Tiroda can also take imported coal but Tiroda is largely designed for domestic coal, and so is Kawai. We can always do some kind of mixing, and in addition to this the Mundra plant, which is largely based on imported coal, in its Phase-IV where the Haryana PPA is there, we can use some domestic coal.

Murtuza Arsiwalla: Okay and the extent of domestic in Tiroda, Kawai, and Mundra Phase-IV would be almost 100%.

Vinod Bhandawat: Yes 100%, but we have quite some flexibility there if required to blend 30% to 40% imported coal.
Moderator: Thank you. We have the next question from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: I have two questions. One, on what is the total debt repayment due at the consolidated level in FY18 and FY19 if possible and the second question is that what was the coal mix in terms of the coal consumption at Tiroda and Kawai in FY17 and if you could also provide the total amount of linkage coal consumed at these plants and any other category of coal?

Vinod Bhandawat: Tiroda is a 100% domestic coal, okay. Kawai for FY17 has a mix of imported and domestic.

Sumit Kishore: So Tiroda was 100% domestic linkage coal or it has the auction coal.

Vinod Bhandawat: It basically has domestic coal as well as interplant transfers and some e-auction.

Sumit Kishore: But can you continue with the interplant transfer after the Supreme Court order or would you have to put a stop to that?

Vinod Bhandawat: Interplant transfer can be done. And then you have mix of imported and domestic in APRL. Last year full year we had 55% imported and 45% domestic, APML as I told you 100% domestic.

Sumit Kishore: Okay, in Kawai the 45% domestic could not have been linkage coal, it would have been largely e-auction.

Vinod Bhandawat: We don't have linkage.

Sumit Kishore: Correct. That is what I am saying it is all e-auction coal.

Vinod Bhandawat: All e-auction.

Sumit Kishore: And what is the landed cost of coal for say domestic linkage coal at Kawai as per your calculations? If you were to get a linkage,
what is the landed cost that you would have from the closest mine?

**Vinod Bhandawat:** See landed cost for Kawai, we would be able to get it and around Rs. 2 per kWh, this is our hope.

**Sumit Kishore:** Okay, sir my first question on the what is the total debt repayment due in FY18 at the consolidated level?

**Vinod Bhandawat:** Around Rs. 2600 crore.

**Sumit Kishore:** And it would be a similar number in 2019.

**Vinod Bhandawat:** Yes almost similar.

**Moderator:** We have the next question from the line of Shirish Rane from IDFC. Please go ahead.

**Shirish Rane:** Sir two questions – first on this borrowing you said total borrowings of Rs. 46,500 crore but if I look at the balance sheet which you have published the number is closer to Rs. 49,000 crore because of Rs. 36,650 crore and Rs. 12,580 crores, so is there that much cash balance or is there some reclassification issue?

**Vinod Bhandawat:** What numbers I gave are largely only for project debt, and, working capital debt is extra, so I said it is project debt including ICD.

**Shirish Rane:** So if I were to get a total debt number on the balance sheet what would that be?

**Vinod Bhandawat:** On a consolidated basis, you have to add another Rs. 6,000 for working capital.

**Shirish Rane:** So it will be about Rs. 52,500 crore?

**Vinod Bhandawat:** Yes, this of course includes the LCs and all.
Shirish Rane: Okay sir and in terms of the strategy for compensatory tariff, so Haryana, we have not booked anything despite being eligible to book compensatory tariff, is that understanding correct or we are not eligible and hence we have not booked anything?

Vinod Bhandawat: No, we are definitely eligible for it, but pending quantification and methodology, we have decided not to book, because we need to know how it will be compensated and things like that.

Shirish Rane: So there will be something but we don't know the quantum and hence we have not booked.

Vinod Bhandawat: We know the quantum, but it is not yet approved by the regulator.

Shrish Rane: What I meant by is that the since we don't know how the regulator will looked at it, we have not booked that quantity?

Vinod Bhandawat: Yes.

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

Archit Singhal: Yes, hi sir, thanks for the opportunity. Sir given this write-off in equity after the Supreme Court order, I just wanted to have your views on how do you plan to recapitalize the company and what about the debt covenant ratios?

Vinod Bhandawat: As we have already mentioned to you, for the debt covenant ratio in APML, APRL and UPCL there is no issue. Now we only have an issue in APL Mundra and for that we are working with GUVNL and other stake holders to see how we reach a resolution for APL Mundra plant. That is the only area where we have a little bit of a challenge. Currently we are operating about 10,000 Megawatt and we have issue of about only 2,000 Megawatt or 2,300 Megawatt or 20%. We are trying to see how to bring a resolution, and if you look at last year also, the promoters had brought in
close to about Rs. 1700 crore equity. So as and when something is required, definitely the company would be adequately capitalized to see that the operations run smoothly.

Archit Singhal: Okay and sir is there any timeline I mean from the lender side by when we have to do this be recapitalization or be resolution?

Vinod Bhandawat: No, as of now there is no timeline per se. If you look at the APL Mundra plant, we have a project debt of only 14,000 crore, and we have equity of close to about Rs. 5,000 crore, so we are largely meeting debt covenants. We have a little bit of a challenge on the funding that has gone to the various subsidiaries, which are again backed by promoter supported loans. So as far as covenants are concerned, debt-equity is met. If you remove the interest servicing, which is part of the funding done by the holdco to the subsidiaries, etc., largely we are in compliance with the covenants and we are current as far as all the servicing to the lenders are concerned. So as of now, there is no stipulation fixed by lenders on us. However, as a proactive step, to ensure that Mundra plant is sustainable on a long-term basis, we are engaging with GUVNL and others to find a solution, so that Mundra plant has a pass through of coal cost. Otherwise on a long-term basis without a pass through of coal cost it is difficult to operate. That is the only challenge we have and we are working very closely as I said in my call.

Archit Singhal: Sir on project Shakti basically we just wanted to have your views on how do we look to benefit from it and if I am not wrong, sir we don’t have any LOAs for any other plant right.

Vinod Bhandawat: We don’t have LOAs for the plants.

Archit Singhal: Okay and we would look to get it for Kawai basically.
Vinod Bhandawat: Kawai and Tiroda partially also, because at Tiroda although we are now able to meet 100% from domestic coal, we would like to first see that Kawai gets full domestic coal.

Archit Singhal: Okay and sir on the compensatory tariff, is it fair to understand it will continue for Tiroda and Kawai until we hear anything from the various SERCs?

Vinod Bhandawat: Yes you are right, and Supreme Court’s order is quite helpful in this regard wherein if you might have seen that the Supreme Court has already clearly said that any change in policy of the government is a change in law under terms of the PPA, and that the regulator has the power to determine the tariff. So we are hopeful that we will get adequate compensation for Kawai and Tiroda for shortfall in domestic coal.

Archit Singhal: Okay sir and sir you have mentioned there was a one-off in finance cost relating to MTM gains, can you quantify that?

Vinod Bhandawat: No, MTM loss of about Rs. 170 crore.

Archit Singhal: In this quarter and what was the quantum in Q4 FY16?

Vinod Bhandawat: FY16, I do not think we had any MTM loss. Can we take this separately?

Archit Singhal: Yes sir, sure sir, and sir last question Udupi if you could share the EBITDA, PAT for fourth quarter as well as for the full year?

Vinod Bhandawat: Udupi EBITDA for the full year is Rs. 1,181 crore and PBT of Rs. 226 crore.

Archit Singhal: Sir the numbers for this fourth quarter.

Vinod Bhandawat: For the fourth quarter EBITDA is Rs. 236 crore and flat PBT Rs. (-6) crore.
Moderator: Thank you, we have the next question from the line of Prakash Gaurav Goyal from ICICI Securities. Please go ahead.

Apurv: Sir I think I missed a part where you explained the debt portion, if you could give the overall number and the breakup will be very helpful?

Vinod Bhandawat: See my project debt including ICD is Rs. 46,500 crore that is all my long-term debt Rs. 46,500 crore. On APL standalone, it is Rs. 24,700 crore, APML Rs. 12,400 crore, APRL Rs. 5,775 crore and UPCL Rs. 3660 crore.

Apurv: Okay sir and how much is the intercorporate debt is?

Vinod Bhandawat: Intercorporate debt is about Rs. 5,000 crore.

Moderator: We have the next question from the line of Rahul Modi from Antique Limited. Please go ahead.

Rahul Modi: Just a couple of questions sir one that for Kawai and Tiroda, do we fall under the discount method under the Shakti program that we have to offer a discount to the existing tariff?

Vinod Bhandawat: Yes, we fall under direct program only.

Rahul Modi: Sir any sort of mechanism that has been finalized from that point?

Vinod Bhandawat: No mechanism has been finalized yet, but if you see Kawai and Tiroda are located in a manner where we have able to get significant domestic coal production and potential is there, so we are hopeful of getting the linkage at the right price.

Rahul Modi: Sir this discount would be determine as per competition sir how will it be?
Vinod Bhandawat: As the policy says auction, so we have to wait for how the auction will happen, so that process is still pending to be announced.

Rahul Modi: Sure and sir secondly and lastly sir what is the status of this Korba West acquisition we are not seeing this getting closed, so can you throw some light on that?

Vinod Bhandawat: Yes for the Korba we are just awaiting the last leg of approvals. Once this last leg of approvals is in place we will do the acquisition.

Rahul Modi: Sir and the current sales and all it has been booked at our books or Avantha’s book?

Vinod Bhandawat: All in Avantha’s book.

Moderator: We have the next question from the line of Shirish Rane from IDFC. Please go ahead.

Mohit Kumar: Sir couple of questions sir – first is grant you said that depreciation has increased because of grant accounting, can you please explain it what is this item?

Vinod Bhandawat: In terms of accounting for government grants and as required by IndAS, whatever benefits you got at the time of setting up the project needs to be added to PPE. That amount has been added to the PPE, so and the benefit that you get is amortized over a period of the life of the project.

Mohit Kumar: Total quantum which you added to PPE.

Vinod Bhandawat: Total amount added to PPE is about close to 7,000 crore for Mundra, Tiroda and Kawai.

Mohit Kumar: Okay and second question sir what is the status of Jitpur Mines, is there any plan to start the production in FY18-19?
Vinod Bhandawat: At Jitpur we are still we have applied for the approval of the mining plan. So once the mining plan is approved then only we can have more details as to how and when the production will start.

Mohit Kumar: The last question sir, are we going to participate in the auction for the Mundra imported coal PPA, in the sense there is also an auction under Shakti where the imported coal based PPA will give a chance to participate in some kind of auction?

Vinod Bhandawat: As of now there is no details available for that, so once those details are there then only we can decide as to whether we will participate or not.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Bhandawat for closing comments, thank you and over to you sir.

Vinod Bhandawat: Thank you for joining our Earnings Call and look forward to talking to you in the next quarter. If you have any further questions, you can get in touch with Nishit Dave, whom most of you know, and we will be happy to provide. Thank you.

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