"NLC India Limited Q3 FY19 Earnings Conference Call"

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MANAGEMENT: **MR. RAKESH KUMAR – CHAIRMAN CUM MANAGING DIRECTOR & DIRECTOR FINANCE (ADDL CHARGE),**
MR. V. THANGAPANDIAN, DIRECTOR (POWER)
MR. NNM RAO – DIRECTOR (PLANNING AND PROJECTS)
MR. PRABHAKAR CHOWKI – DIRECTOR (MINES)
NLC INDIA LIMITED

MODERATOR: **MR. MOHIT KUMAR – IDFC SECURITIES**

Moderator: Ladies and Gentlemen, good day and welcome to the NLC India Limited Q3 FY19 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Mohit Kumar from IDFC Limited. Thank you and over to you, sir.

Mohit Kumar: Thank you. We have with us Mr. Rakesh Kumar – Chairman cum Managing Director and the senior management of NLC to discuss the Q3 FY19 Results and there will be brief opening remark from the management followed by Q&A.

Rakesh Kumar: Good morning. This is Rakesh Kumar – CMD, NLC India Limited and I am accompanied by Shri. V. Thangapandian – Director (Power), Shri NNM Rao – Director (Planning and Projects) and Shri Prabhakar Chowki – Director (Mines) of NLC India Limited. We are here to give you an update on the third quarter earnings.

Our lignite production in the current quarter ending 31st December 2018 is 60.97 lakh ton compared to 63.05 lakh ton in the corresponding period of 2017-18. Lignite production was restricted to requirements for power generation and outside sale. Power sale in the current quarter ending 31st December 2018 is 5430.78 million unit as against 4992.37 million unit which is approximately 8.78% more. Power exports has also been 10.06% higher than the corresponding period. Profit after tax for the current quarter ending 31st December 2018 is 329.49 crore compared to Rs. 313.80 crore in the corresponding period registering a growth of about 5%. The total revenue of the company for the current quarter period 31st December is Rs. 2070.29 crore as against 1807.50 crore in the corresponding period.

Our average thermal tariff rate has come down from Rs. 4.06 paisa in the corresponding previous period to Rs. 3.80 paisa in the current year third quarter and it is our net power surrender in the current quarter ending 31st December is 247.45 million unit as against 336.60 million unit and on 28th December 2018, One of our two units of 2x500 megawatt lignite-based power plant at Neyveli was up and we are very firmly progressing towards commissioning of the first unit. The anticipated commissioning is before 31st March 2019 of the first unit and anticipated commissioning of the second unit is 30th June 2019.

We are making all our efforts to squeeze this period also. So, I would like to invite you all for any question.

Moderator: Ladies and gentlemen we will now begin the question and answer session. We take the first question from the line of Abhinav Bhandari from Reliance Securities. Please go ahead.

Abhinav Bhandari: Just wanted to check on this first unit which has got commissioned so how is it working sir, has it got stabilized and would be looking at some numbers in Q4 from this unit?

Management: First 500 megawatt unit likely to be commissioned in the month of March'2019. It is now only lighted up, and synchronization will take place in the month of March'2019, but generation we can expect around that which is a infirm power not the commercial power. It will be to the tune of 150 to 200 million unit we can expect from this unit in the current financial year.

Abhinav Bhandari: Sir if you could give a update on our solar and wind projects where are they in terms of overall commissioning and when can we have some numbers from them in FY19, FY20?

Management: Already we have been operating 140 megawatt of solar power plant in Neyveli and in addition to that out of 500 megawatt solar power project in Tamil Naidu 300 megawatt was already commissioned and beyond which we have already progressed for the balance portion of 500 megawatt it is nearing completion. We are anticipating that before 31st March. We will be able to complete this 500 megawatt also, already out of balance 200 megawatt 150 megawatt completed and work is going on for the balance 50 megawatt and 709 megawatt project we are progressing well. Initially we faced certain issues on the land acquisition which in most of the cases we have overcome now and out of the Rs 1200 crore CAPEX plan for the year we have already spent Rs 170 crore approximately and we are expecting around Rs 300 to 400 crore by next month. So we are progressing well on 709 megawatt also. If we see the renewable power export from April to December 2018, we have exported 414.78 million units as compared to 149.28 million units for the 9 months in the last financial year. Our revenue from the renewable energy including wind and solar about Rs. 177 crore out of which we have earned a profit of approximately Rs. 68 crore.

Abhinav Bhandari: This balance 50 and 709 MW what are the timelines for commissioning?

Rakesh Kumar: From renewable power Rs. 177 crore revenue is earned out of which we have earned a profit of approximately Rs. 68 crore.

Abhinav Bhandari: Sir this balance 50 and 709 what are the timelines for commissioning?

Rakesh Kumar: For 709 megawatt we have time up to September 2019 although we have given time limit up to April, 2019 for the various projects and 500 megawatt as I informed you earlier that we are anticipating the completion by March this year.

Abhinav Bhandari: Sir couple of numbers if you can give on receivables and overall borrowings at the end of December?

Rakesh Kumar: The receivables as on 31st December 2018 has been to the tune of Rs 4461.93 crore which includes power related and lignite related results out of the Rs 4461.93 crore, Rs 1532.03 crore is less than 60 days and from 60 days to 1 year Rs.2502.98 crore and one to two years Rs 200.05

crores and more than 2 years is Rs 226.88 crore. The biggest CERC petition which is pending with APTEL for the tariff of lignite to the tune of about Rs 1500 crore has been decided in our favor to the extent APTEL has advised the beneficiaries to pay the amount. This order has been dated 31st January 2019 and APTEL has advised the beneficiaries to pay this amount within two months' time. So we are expecting that our debtor position will be comfortable after realization of this amount and total borrowings as on 31st December 2018 is Rs. 8197.11 crore.

Abhinav Bhandari: Sir what is this amount which you said has been decided in your favor how much is the quantum I missed the number?

Rakesh Kumar: About Rs 1500 crore. This is on account of the lignite price realization, the appeal is pending with APTEL and based on that APTEL has decided to advise the beneficiaries to pay this amount within 2 months from the date of order.

Abhinav Bhandari: Sir one more thing was on the plant where we were having some technical issues, I think it was NTPL if I am not wrong in the first and second quarter, so how are those issues now and how is the plant doing?

Rakesh Kumar: NTPL up to 31st December 2018 there has not been any particular technical issue in this regard. However, after that recently we have faced some problem which we are attending to.

Management: What you may be telling is that of TPS-I expansion we had teething problem, now it is operating at full capacity. Presently the PLF is 67.71% till December '18.

Abhinav Bhandari: And NTPL is a similar problem what we faced in TPS-II expansion?

Management: No NTPL it is in the month of January we had faced some issue in rotor and the investigations are going on.

Abhinav Bhandari: Sir last couple of things one is your take on the draft CERC regulation any major positive or negative that you want to highlight, and the last question was if you could update on the status of Ghatampur.

Rakesh Kumar: Yes, draft CERC regulation although in the initial draft there were couple of issues which we have taken up with CERC and many of those issues highlighted have been already addressed in the latest draft regulations. Now we have got the relief that ROE will continue to be 15.5% of the regulated equity and security expenses will also be separately reimbursed as per the new regulation which is also a relief. Further the debt equity ratio will also be retained at 70-30. So CERC regulation as per the latest draft will definitely be little challenging but definitely this is role of the regulators to tighten the same every period and we are prepared for it.

Abhinav Bhandari: Sir any specific thing on the mining side in terms of the ROE that has been given out in these regulations or there is no mention of that?

Rakesh Kumar: They have indicated that they will be coming out with a separate set of guidelines for pricing of coal and lignite which have not been elaborated as per the draft we are waiting for the same.

Abhinav Bhandari: And sir on the Ghatampur if you could help where is the construction in terms of progress?

Rakesh Kumar: Ghatampur the overall physical progress as on 31st December 2018 is 28.28% and overall financial progress is 26.25%. The unit one Boiler Erection is in progress, preparatory works of mainly reaction activities started and ESP reaction works is also in progress. Unit 2 Boiler Structure Erection Tier-5 in progress and ceiling girder fabrications were completed. Preassemblies of advance lift up of duct work in progress. Coal silo ring girder erection is also in progress. So there has been a substantial progress. Unit 3 boiler erection started in December 18 Tier-1 in progress and I am very happy to inform that on 25 December 2018 we have completed 118 metric ton erection in a single day which is a record in our history also and probably this could be the best achievement in this aspect in India. We have incurred an expenditure of Rs.2369.71 crore during the current year itself for 9 months and total expenditure on the project has reached a level of Rs.4524.70 crore and as of now we are anticipating the commissioning of these three units as per schedule commissioning timeline.

Moderator: The next question is from the line of Bhavin Vithlani from SBI Mutual Fund.

Bhavin Vithlani: Sir my question is more on the TPS II expansion 2 X 250 megawatt, could you highlight what was the availability for the third quarter ended as well as the fiscal year up to the third quarter 9 months? The issue is that if I recollect, we had these issues of frequent leaks in the boiler tubes so what exactly is a progress on that will be helpful?

Rakesh Kumar: Yes TS-II expansion, we have faced the problem in the current year also. The overall average PAF up to December is 38.64% availability as against last year 48.13%, but for giving an update on the problem which we have faced, I will request Director – Power to reply.

V. Thangapandian: Actually, this financial year we took up the boiler for a major modification because of the frequent tube leakages. This has resulted in reduction in tube leakages. The last quarter (Q3 - 2018-19) if you see the PLF it was 55.4% even in January it has generated with more than 67% PLF. It is getting stabilized and has improved in the fag-end of this quarter.

Bhavin Vithlani: Sir if you could elaborate a bit, we had done some modification and are these issues more structural because the commissioning has been done significantly back, so do you believe that these issues can be resolved, and we could see the plant back because we are not seeing these issues in the Barsingsar plant.

V. Thangapandian: Due to mechanical rubbing tube leakage was in the anchor tube in the BHEL commissioned area that has been addressed totally, BHEL has designed and modified the total system. this issues has resulted to lesser plant availability in Q1 & Q2. Afterwards that particular area where the leakages were there. That has totally disappeared, but in the new area few tube leakages has come up. You maybe knowing that this takes lot of time to cooling and if any tube leakages come it takes 15 to 20 days that is even the numbers are less the outages are more, however now it is coming down. During December and January the average PLF was around 67%.

Bhavin Vithlani: So what was the under recovery because of the lower PLF and going forward do you see would the under recovery would completely go away?

Rakesh Kumar: TS-II expansion we have suffered under recovery of about Rs.188.20 crores for 9 months on regulated equity and with the stabilization of this plant we expect this to get minimize.

Bhavin Vithlani: Assuming the current availability if you could highlight what has been the availability in Jan this kind of performance continues what would be the under recovery in the fourth quarter?

Rakesh Kumar: It is difficult to estimate. Let us see. Let the plant run in a stabilize mode in this quarter we will come to know.

Bhavin Vithlani: Sir second question is on the expansion of 500 MW X 2 is the technology similar in the 2 X 250 MW and have we incorporated the issues or the learning from the TPS-II Expansion?

V. Thangapandian: It is a pulverized fuel technology and it is not like a TS-II Expansion. It is not the CBFC boiler and it is similar to TS-I expansion and TS-II. So whatever learnings in TS-II which was commissioned earlier and whatever problems we have experienced has been incorporated.

Bhavin Vithlani: Would there be I understand that for the TPS 600 megawatt 2019 March is the final day, so until the 1000 megawatts ramps up would there be a period of 3, 6 months until that lignite volume suffer and consequently some impact on the profitability?

Rakesh Kumar: TS-1 -Out of 600 megawatt we are still running 500 megawatt we have closed down 1 unit of 100 megawatt and till such time this new units gets commissioned we are envisaging that TS-I will continue. So lignite production will not suffer.

Bhavin Vithlani: Sir could you then highlight beyond this we had expansion plan which is another 1320 megawatt that we are planning at Neyveli as well as the expansion at the mining sides, any clarification on that will be helpful?

Rakesh Kumar: We are progressing on mine-3 and TS-II 2nd expansion in Neyveli but the pace is little bit slow as expected we are facing some issues in the land acquisition. We anticipate that we will be able to overcome the initial problems with the help of the state authorities.

Bhavin Vithlani: Because some of your suppliers mainly BHEL in the earnings call said that they are shortly expecting a 1320 megawatt to be ordered, so we actually got excited that okay the progress is pretty strong, but do you believe that it is sometime away on the 1320 megawatt expansion at Neyveli?

Rakesh Kumar: 1320 megawatt tendering is still under process and the pace is little bit slow as we are facing some problems on the land acquisition front which eventually happens. I am requesting our Director – Mines Mr. Prabhakar Chowki to give some update on Mine-III.

Prabhakar Chowki: Mine-III we have progressed towards obtaining statutory clearances. We are in the right track as far as the preparedness of opening the Mine-III is concerned. So temporary impediments in land acquisition are there, but hopefully we will be able to expedite it after our general elections, but I thought we are geared up for opening Mine-III to supply adequate quantity to lignite to our power of expansion.

Bhavin Vithlani: And sir the 1320 expansion will be at the 600 megawatt side which is getting phased out?

Prabhakar Chowki: No it will be a new different side since it is linked to Mine-III. With respect to Tendering, I will request Director – P&P to throw some light on that.

NNM Rao: As far as thermal power plant is concerned we have already processed the tenders for the boiler and turbine and that evaluation is under progress, but we are taking a call on the award and other issues because of the Mine-III land acquisition and that public hearing was completed for Mine-III further we are expecting to apply for the environment clearance. So because of all this issues now we are going very slow on the award of the project.

Bhavin Vithlani: Sir any plans at the 600 megawatt locations once the plant is phased out would be doing a new replacement at the same site?

Rakesh Kumar: No we will not be using the same site for replacement, NNTPS is at a different site and TS-II second expansion will also be at a different site.

Bhavin Vithlani: Sir how do you go forward of the same site where the 600 megawatt is?

Rakesh Kumar: That will be decommissioned, and we will be following all compliances and procedures to decommissioned the project and dispose it off.

Bhavin Vithlani: Lastly how the profitability at the joint venture with the Tuticorin plant?

Rakesh Kumar: Tuticorin plant is performing well as on up to Q3 we have reached revenue Rs 2183.98 crores in addition to this we have other income of Rs 50.93 crore so total income is Rs 2234.91 crore and NTPL plant has earned a profit after tax of Rs 66.99 crores for the 9 months.

Moderator: The next question is from the line of Apoorva Bahadur from ICICI Securities. Please go ahead.

Apoorva Bahadur: Couple of book-keeping question just going through the number so I see an increase in the finance cost but a decline in depreciation in QoQ so why is that exactly?

Rakesh Kumar: Finance cost has increased because we are using our working capital more and more. Further the solar projects which have been commissioned during the 9-month 200 megawatt and 150 megawatt more. So these projects after commissioning naturally the interest paid on the loan will be accounted as a finance cost instead of getting capitalized after the commissioning, but depreciation has decreased because of the impact of FERV it is because of the foreign exchange loan which we have got from KFW and on account of the depreciation of euro in the current quarter we have got from profit on that.

Apoorva Bahadur: So because of depreciation of loan the overall depreciation went down?

Rakesh Kumar: Yes.

Apoorva Bahadur: What was the amount sir?

Rakesh Kumar: Amount is around Rs.39 crore higher in last year.

Apoorva Bahadur: Because I think the overall decline in depreciating is a bit higher QoQ has grown by around 31 crores, any other one time this thing item?

Rakesh Kumar: TS-I expansion because the plant has completed 12 years and therefore the depreciation rate has now been changed from 5.28% to 2.04% now.

Moderator: The next question is from the line of Sriram Kumar from Spark Capital. Please go ahead.

Sriram Kumar: Sir on the lignite outside sales our understanding is that lignite outside sales have higher margins as fixed cost is recovered through transfer price. Is there a risk going forward this would get included in the transfer pricing mechanism and so that our margin will be lower?

Rakesh Kumar: As far as outside sale is concerned, we can categorize the outside sales into two parts. One is the IPP TAQA which is taking lignite under long term agreement they have also increased their requirement during the current year from 6.59 lakh ton to 9.75 lakh ton in the current year 9 months and whereas in case of second category of sale of lignite which is being sold through auction. We have been able to improve the sales from 2.73 lakh tons to 15.05 lakh tons primarily because we have become more sensitive to the market price of alternate fuel and thereby we could sell the lignite more. The impact of this price should not be there on lignite transfer price as these two things are different and we are operating the quantity sold through auction within the permissible limit.

Sirram Kumar: The non-execution wage revision which will be implemented I mean from Jan ‘17 we need to pay the non-executive wage revision what is the prospect of hike and how much will be the provision incurred in FY19 and FY20?

Rakesh Kumar: The proposal for hiking the wage revision of non-executive has been agreed with the unions and it approved by board recommended for approvals and sent to ministry of coal which is under process there and after getting the final decision from the ministry we will be able to know the outcome. We have created a provision of around Rs.30 crore per quarter.

Sriram Kumar: The renewable assets the 709 megawatt and 500 megawatt which is the debt to equity that has been taken?

Rakesh Kumar: Yes for 500 megawatt solar 70-30 debt equity ratio has been envisaged and we are funding the project with 70% debt. For 709 megawatt we have envisaged the debt equity ratio of 80:20.

Sriram Kumar: On the under-recovery front so what is the total under recovery in the quarter of Q3 FY19 and 9 M FY19?

Rakesh Kumar: You need to know the 9 months or 3 months.

Sirram Kumar: Both.

Rakesh Kumar: So 9 months for thermal we have suffered an under recovery of Rs.241.51 crore on regulated equity and for thermal power stations and for mining we have suffered Rs. 60.75 crore. For 3 months we will give you the figures later.

Sirram Kumar: Sir on the TPS-II expansion so we have been incurring CAPEX over and above what has been initially envisaged because of misuse in the thermal power plant so will the increase in CAPEX will that be compensated with the higher regulatory equity or will it be borne by the company, how does it plan out?

Rakesh Kumar: Yes, CERC has not agreed for the delay and approximately out of the total project cost we have not got the regulatory consent for approximately Rs.500 crores. However, we have preferred an appeal for the same.

Sriram Kumar: Sir finally on the CAPEX front is it possible to give asset wise CAPEX for FY20 and 21?

Rakesh Kumar: For FY 20 and 21 assets wise we do not have the breakup right now We will provide you later on.

Sriram Kumar: So sir just one last question on mines so in the Mine-I expansion what is the status sir and we have been seeing increasing overburden and removal in Mine-1A. I presume it is because of the expansion activity going on, when it will come to the production and what will be the CAPEX incur?

Rakesh Kumar: Mine-I and expansion of Mine-1A the projects was continuing however now we have slowed down on the CAPEX as we are not envisaging immediate requirement of lignite. As we witness the requirement, we will again expedite on the projects.

Sriram Kumar: Mine-I and removal will also be lower in terms of metric tons?

Rakesh Kumar: This project has not yet been completed the expansion is going on. We have incurred total amount of Rs.20.27 crore in the current year in the last 9 months against the target of Rs.76.60 crore and depending upon our clarity on the requirement of lignite as it increases after stabilization of TS-II expansion we will be taking a call.

Sriram Kumar: Finally, on the Talabira coal blocks what will be the CAPEX recommend for the Talabira coal block when will that be expected to come?

Rakesh Kumar: Talabira Mine-II and III- We have envisaged a total CAPEX of around Rs.2400 crore out of this current year we have envisaged an expenditure of Rs.300 crore and up to December 2018 we have already spent Rs.161.08 crore. As you are aware the mine is on an MDO mode so major CAPEX will be incurred by MDO and they provide us the coal we will be paying them on a per ton basis of coal. So through MDO model we have shifted the responsibility or obligation of incurring major CAPEX of mine to MDO.

Moderator: We would take the next question from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Sir mines are regulated by Ministry of Coal right now as far as transfer price is concerned, do you think that the CERC will regulate from FY20 onwards?

Rakesh Kumar: So far, we have no order in this regard. Although CERC has indicated that they will be formulating the guidelines for fixing the price for coal and lignite. We are not clear as to whether they will be doing so for the future mines allotted or the present operating mines. So clarity is yet to be received in this regard.

Mohit Kumar: You must have had attended the public hearing so did you get some clarity?

Rakesh Kumar: On this there has not been any discussion during the hearing and there has not been any further notification issued by Ministry of Coal or CERC in this regard so far.

Mohit Kumar: I am asking this question because the CERC guidelines are completely solid as far as incentive income on the mines is concerned?

Rakesh Kumar: So far, we have also not received any clarification we will seek the clarification at an appropriate time

Mohit Kumar: The second question it pertains to the order which came from APTEL on 31st Jan 2019, this is pertaining to our existing receivable of Rs.2598 crore am I right and do you think this should get paid in the next 2 months as directed by APTEL?

Rakesh Kumar: It is Rs.1283 crore from TANGEDCO, and the total amount is little over Rs. 1500 crore and APTEL has advised to the beneficiary to pay this amount along with the dues which have accrued after the date the petition within 2 months from the date of the order.

Mohit Kumar: Within two months am I right sir?

Rakesh Kumar: Yes within two months.

Mohit Kumar: They also get paid the late premium surcharge?

Rakesh Kumar: Pardon.

Mohit Kumar: Will you get the late premium surcharge on this amount?

Rakesh Kumar: Naturally as per the regulation whatever period is delayed, we are entitled to the surcharge. We have already claimed also.

Mohit Kumar: Sir my last question sir because you are so on the account of non-executive wage revision, you are recognizing the cost in the expense whether you are recognizing anything on the top line?

Rakesh Kumar: Yes, definitely we are envisaging that the wage revision is also regulatory income and we are entitled to get this money as an enhancement in the tariff.

Mohit Kumar: Are you recognizing this income on the top line in the FY19?

Rakesh Kumar: Yes.

Mohit Kumar: The entire amount?

Rakesh Kumar: Only thermal portion, not in top-line, it is rate regulated income.

Moderator: Thank you very much. Ladies and gentlemen that seems to be the last question for today. I would now like to handover the conference over to Mr. Mohit Kumar for his closing comments. Over to you.

Mohit Kumar: Thank you for dialing in. We can close the call now.

Moderator: Thank you very much. Ladies and gentlemen on behalf of IDFC Securities we conclude today's conference. Thank you for joining and you may disconnect your lines now.