"NLC India Limited
Q3 FY2022 Earnings Conference Call"

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ANALYST: **MR. RAHUL MODI – ICICI SECURITIES LIMITED**
MR. ANSHUMAN ASHIT - ICICI SECURITIES LIMITED

MANAGEMENT: **MR. RAKESH KUMAR - CMD - NLC INDIA LIMITED**
MR. SHAJI JOHN - DIRECTOR (POWER) - NLC INDIA LIMITED
MR. JAIKUMAR SRINIVASAN - DIRECTOR (FINANCE) - NLC INDIA LIMITED
MR. MOHAN REDDY - DIRECTOR (PLANNING & PROJECTS) - NLC INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to NLC India Limited's Q3 FY2022 Post Results Conference Call hosted by ICICI Securities Limited. 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. Rahul Modi from ICICI Securities. Thank you and over to you, Sir.

Rahul Modi: Thank you Steven. Good afternoon, everybody, on behalf of ICICI Securities, we welcome you to the Q3 FY2022 results conference call of NLC India Limited. We would like to thank the management for giving ICICI Securities the opportunity to host this call. We have with us from the management Shri. Rakesh Kumar, Chairman & Managing Director with the other Functional Directors and Senior Management of the company. I would like to hand over the call to Mr.Rakesh Kumar for the opening remarks, post which we can have a Q&A session. Thank you and over to you, Sir.

Rakesh Kumar: Thank you very much Rahulji for hosting this investor call, and I would like to share this as an opportunity to interact with NLCIL stakeholders and also reply to their queries in the financial results for the quarter and nine months ended on December 31, 2021. I am Rakesh Kumar, CMD, NLC India Limited along with Shri. Shaji John, Director (Power), and Shri. Jaikumar Srinivasan, Director (Finance) along with the senior officials of NLCIL.

I welcome you all for this conference call and I would like to mention some of the performance highlights of NLCIL for the nine months' period ended on December 31, 2021.

Power generation on standalone basis for the period is 18,485 MU as against 13,743 MU in the corresponding period of the previous year registering a growth of 34.51%.

Consolidated power generation for the period is 21,740 MU as against 17,605 MU in the corresponding period of the previous year registering a growth of 23.49%.

The company has achieved thermal PLF of 70.20% as against the national average of 57.16%.

Consolidated total income of the group during the period is Rs.9381 Crores as against Rs.8198 Crores in the corresponding period of the previous year registering a growth of 14.43%.

Consolidated profit after tax for the period is Rs.784 Crores as against Rs.589 Crores in the corresponding period of the previous year with a growth of 33.28%.

Standalone total income of the company for the period is Rs.7887 Crores as against Rs.6111 Crores in the corresponding period of the previous year registering a growth of 29.06%.

Earnings before interest, tax, depreciation and amortization before exceptional items for the period is Rs.3344 Crores as against Rs.2397 Crores in the corresponding period of the previous year registering a growth of 39.51%.

Standalone profit after tax for the period is Rs.797 Crores as against Rs.387 Crores in the corresponding period of the previous year registering a growth of 105.96%.

With this, I look forward for the interaction with the stakeholders.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Modi from ICICI Securities. Please go ahead.

Rahul Modi: Sir, just thought of taking the first question. Can you elaborate more on a structural question in terms of our target in the renewable space what are the activities that we are looking forward to and what is our targets that we are looking at in terms of both solar and wind going forward and the upcoming opportunity size for us in that?

Rakesh Kumar: Yes, Sure. In the renewable segment, we have achieved an installed capacity of 1421 MW of renewable projects, in which 51 MW is wind and balance is solar. Most of it is in Tamil Nadu except for 20 MW solar plant in Andaman, and we want to ramp up this capacity. Recently, we have got 150 MW hybrid project and 510 MW of solar from SECI and IREDA grids, and we are targeting more of such tenders and we want to ramp up our capacity in solar to the extent of 4000 MW plus. I welcome any specific question on that.

Rahul Modi: No, that will be all. Just one number I would need in terms of for the nine months, what has been our EBITDA and revenue from the renewable segment and what is the level of gross block and the debt levels for the renewable capacities.

Rakesh Kumar: EBITDA from the renewables is Rs.552.35 Crores and we have got profit before tax to the extent of Rs.185.86 Crores from renewable projects.

Rahul Modi: Sure, Sir. Thank you.

Moderator: Thank you. The next question is from the line of Anshuman Ashit from ICICI Securities. Please go ahead.

Anshuman Ashit: Thank you for the opportunity Sir. Just continuing on the projects, can you please update us on the status of the Ghatampur project and Talabira mines as well?

Rakesh Kumar: Our Ghatampur project, which started with the GOI sanction in 2016 with an estimated cost of Rs.17237.80 Crores. Up to December-2021, we have spent more than Rs.12700Crores on the Capex front and we have achieved physical progress of more than 77% and financial progress is more than 75%. Although we are facing some issues on GA3 package because of the financial difficulties being faced by the GA3 package contractor, however we are catching up, we are trying to resolve the issues, but at the same time this has resulted in some delay. Our commissioning activity for the first unit is on and the expected commissioning for the first unit is in October 2022 and we are targeting second and third units four months thereafter each unit.

Anshuman Ashit: Okay Sir and the Talabira Project?

Rakesh Kumar: Talabira Project is already commissioned and r, we have already achieved more than our target of 4 MT by December 31, 2021 from coal mines, and we are going to target our Talabira mines for much more production in the next year.

Anshuman Ashit: Sir, in our presentation, we have mentioned quite a few projects through our vision 2025. Could you please give us some clarity on what can be our capacity by the end of 2025 because we have mentioned about 15 GW of addition, but just in the next slide the growth plan for three years is 2.6 GW. Could you please give us some clarity on that?

Rakesh Kumar: Actually, we had lined up and planned in our corporate plan the thermal capacity addition by way of 2400 MW Talabira Pithead power plant in the first phase which is followed by 800 MW by another unit and 1980 MW Ghatampur and we also envisage TS-II second expansion phase I and phase II 1320 MW each, however this TS-II second expansion phase I, phase II may not come up because we are facing some difficulties in the financial viability of the project, but at the same time we have our plan for whatever we envisage for the solar and renewable projects to the extent of 2830 MW, which we want to ramp up beyond 4000 MW. Power assets acquisition, which we planned for 3000 MW, so far we have not made much progress. Depending upon the opportunity in the time to come, we will take a call and at the same time the Rajasthan projects, two mines with two small power plants of 250 MW each, those are on hold and we have already concluded the contract with the EPC Contractor and we are going to arbitration for settling the claims.

Anshuman Ashit: How much have we spent on those projects?

Rakesh Kumar: This project in Rajasthan, we have spent to the extent of 288 Crores for Bithnok and for BTPS, Rs. 102.92; the total expenditure incurred so far is 390.92 Crores.

Anshuman Ashit: With the projects in RE space that we have in hand, can we reach 4 GW by FY2025?

Rakesh Kumar: Yes, with the pace with which we are going, we are hopeful that we will be able to win over the tenders and we will reach a cumulative capacity of 4000 MW+.

Anshuman Ashit: Thank you Sir. The next question is on the receivables front so could you please give us the receivables at the end of nine months FY2022?

Rakesh Kumar: The total receivables as on December 31, 2021 is Rs.4580.82 Crores against the last year corresponding figure of Rs.8746.17 Crores, so we have been able to reduce our dues to the extent of 4165.34 Crores.

Anshuman Ashit: Finally, the regulated equity at the end of nine months before I come back in the queue.

Rakesh Kumar: The regulated equity for mines is Rs.2830.78 Crores and thermal is Rs.3762.41 Crores and profit from the regulated equity of mines is Rs.416.53 Crores and thermal is Rs.553.61 Crores; total regulated equity is Rs.6593.19 Crores and return is Rs.970.14 Crores for the nine months. If we see the reconciliation, the thermal capacity charges under recovery is Rs.445.75 Crores. There is no under recovery on mine side and net income from regulated business is Rs.524.39 Crores

Anshuman Ashit: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Apurva Bahadur from Investec. Please go ahead.

Apoorva Bahadur: Thank you so much for the opportunity. Wanted to know your thoughts if there is any progress on the monetization plan, I think which we discussed a couple of quarters ago and which government had also highlighted in the national monetisation pipeline.

Rakesh Kumar: I request Director Finance to throw more light on this aspect.

Jaikumar Srinivasan: With regard to monetization plan, broadly in the domain of the coal ministry, there were two types of projects that were identified; one is on the coal mining side and what was regarded as monetization was in terms of the expenditure that has been prioritized in the sense that wherever we have outsourced the mining through the MDO route and the expenditure on that side, but going ahead for the integrated entity like NLC, which is into mining as well as into the power business additionally based on the vision of the government, the renewable as well as hydro assets were identified for monetization. Since we are into renewable, the solar predominantly, we have worked on the solar. We proposed to monetize this subject to the feasibility and we have done all the preparatory works in that connection. We are also envisaging, subject to government approval, solar arm, through which the monetization, either in the form of stake sale or in terms of InvIT, so the necessary advice is being taken, and we are working on that. Soon we will be taking the In-principle approval once the permission is coming from the government.

Apoorva Bahadur: Sir by when can that be expected; the permission?

Jaikumar Srinivasan: It is just an estimate that in the next two months, the permission should be in place; we are expecting that.

Apoorva Bahadur: Fair enough, that is very useful. Secondly, on our Clean energy plants; I think as of now our focus has been largely towards renewable capacity addition. Wanted to know if there are any plans on going into other directly energy derivatives sectors say like power storage or green hydrogen ; anything of that sort if you could throw some light so that it would be really useful.

Rakesh Kumar: So far we have not explored on power storage but we have shown some interest in hydrogen, but no firmed-up plan or discussions have taken place that we can share any results or any plan on the business. In the meantime, our new Director, P&P, Mr. Mohan Reddy, has joined the conference call.

Mohan Reddy: Good afternoon to all of you and myself Mohan Reddy from mining and thermal background joined as Director, Planning and Project

Rakesh Kumar: So we are hopeful that this joining will impetus on the addition of more projects and development on ongoing projects which is there.

Apoorva Bahadur: Thank you Sir, I will get back in the queue.

Moderator: Thank you. The next question is a follow up from the line of Anshuman Ashit from ICICI Securities. Please go ahead.

Anshuman Ashit: Thank you, Sir once again for the opportunity. Sir, could you please tell us how much late payment surcharge have we booked for nine months FY2022?

Jaikumar Srinivasan: The surcharge income that is for the late payment surcharge, which we billed to the beneficiary of power for the nine months December -2021is Rs.296.57 Crores. Now obviously there is a tradeoff between your surcharge income as well as the collection efficiency, so still the collection efficiency, the trend of collection has been fairly robust in the last one and a half years so the kind of revenue in terms of surcharge will be on the reduction. The other part is that your reliance on borrowed money will also be less to that extent, so it will get paid off and there is a better liquidity, however with excess liquidity this revenue would be more on a lesser side, I would say.

Anshuman Ashit: Okay Sir. There was one issue, which we had raised with CERC with regard to our coal mining cost approval. Could you tell us the status of the same and is there any impact on our profits regarding it?

Rakesh Kumar: Although the notification for pricing of the coal and lignite was issued by CERC on September 13, 2021, we were given two months period for filing the petition so we sought extension for the same because the pricing of coal and lignite, especially lignite will be based on the truing up of our earlier tariff period of 2014-2019, which has not yet been finalized so CERC has accepted our request and they have given us the extension up to two months from the date of the order, which will be issued for truing up of 2014-2019 period, but in the meantime we are preparing for filing the petition simultaneously and we are charging the provisional price of Rs.477 for NTPL till such time this is finalized. After filing the petition and decision of CERC, we will be able to know the impact of pricing on profitability.

Anshuman Ashit: By when do you expect that order to be given to us?

Rakesh Kumar: We are expediting, but since CERC has to decide on the truing up, we cannot force them but at the same time we are requesting them to expedite but we are expecting soon now.

Anshuman Ashit: Regarding our dividend policy, are we looking at to be maintaining what we have and, on the payout, as well, so will we be paying any interim and how many payouts are we looking forward regarding a dividend. Can you give some clarification on that?

Rakesh Kumar: Yes sure, DIPAM has already issued the guidelines on the payment of minimum dividend which is 30% of PAT or 5% of net worth, whichever is higher, so we will be guided by that but at the same time depending upon the profit levels which we achieved and the Capex plan which we are pursuing, we will be deciding appropriately on dividend from time to time and we will intimate you.

Anshuman Ashit: Thank you Sir I will come back in the queue.

Moderator: Thank you. The next question is a follow up from the line of Pawan Bansal from LTS. Please go ahead.

Pawan Bansal: My question is on coal mine. What is our target production for next year?

Rakesh Kumar: Thank you Pawan for your question. This year we have already crossed 5 MT against our plan of 4 MT and next year we are going to ramp up depending up on the enablement. There are two, three concerns, on which we are working. Based on the resolution of those concerns, we will be able to ramp up the production. Right now, we do not have any firmed-up figure, but we may like to go up to the maximum capacity, a normativ**e** level of 20 MT over the period.

Pawan Bansal: Will that not take time sir? 20 MT, so it cannot happen next year.

Rakesh Kumar: It all depends on the resolution of some of the issues, on which we are working and we are hopeful that we will be able to resolve within a short period of time.

Pawan Bansal: My second question is on balance coal; are we using in-house or are we selling in a market.

Rakesh Kumar: See the surplus coal as, per the approval accorded by Ministry of Coal for this year and four more years to the extent of 67.5 MT to be sold through auction or any other means, so we are signing the MOU with NTPC primarily. Up to December, we have sold 1.2 MT already to NTPC and on e-auction we have already sold 2.2 MT. As we progress, we will be resorting to more excess sale.

Pawan Bansal: The e-auction or to NTPC, because NTPC must be paying Coal India prices only.

Rakesh Kumar: NTPC up to December we have signed an MOU with a rate of 10% above Coal India base price, but in the time to come we will try to have better pricing with NTPC.

Pawan Bansal: Because e-auction prices are much, much higher than the Coal India prices.

Rakesh Kumar: As of now yes, you are right. We are getting better pricing, but at the same time since these mines are allotted for power generation sectors, primarily for end-use plants and it is only a temporary arrangement that whatever excess coal is available that we are selling either to NTPC or through e-auction mode, so depending upon the priority for the country we resort to selling of coal to NTPC first and then balance available to other than power sector.

Pawan Bansal: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Dhruv Muchhal from HDFC Asset Management. Please go ahead.

Dhruv Muchhal: Thank you so much. Apologies I joined a bit late, so it could be a repeat. On the Ghatampur project any update if you can give on the timeline of commissioning of the plant.

Rakesh Kumar: As I shared earlier also that Ghatampur power plant progress is going on. We have achieved more than 77% of the physical progress and actual expenditure capital expenditure till December 2021 is more than Rs.12700Crores, but you are right that there is a concern because of some problems being faced by package contractor GA3, we are trying to resolve the issues, but it has resulted in delay and we are trying to catch up. As of now we envisage that the first unit of Ghatampur plant maybe likely to be commissioned by October 2022 and other units four months thereafter each unit.

Dhruv Muchhal: The total project cost I believe is about 19000, right Sir?

Rakesh Kumar: Rs.17237.80 Crores is the sanction cost but it is likely to increase further because we are expecting that FGD tender will be finalized, which may result in more cost, so we will get the picture after getting the finalized offer of FGD for the plant.

Dhruv Muchhal: Got it. We are expecting first unit by October, because in terms of spending we have covered about 70% of the total spending it seems.

Rakesh Kumar: Yes, the financial progress is more than 75%.

Dhruv Muchhal: Got it. Any critical areas that we should be looking forward that this gets resolved? You expect the commissioning then to pickup quickly.

Rakesh Kumar: Yes, the package one and package two are going well. however, with the balance of plant package contractor, we have to resolve some of the issues. We are discussing day and night and finalizing and firming up the revised action plan in consultation with their team also and we are trying to take all other stakeholders on board to take some more discussions.

Dhruv Muchhal: Until then you can sell the coal from your coal mine in the outside market because we have surplus capacity until then.

Rakesh Kumar: Actually, this Ghatampur project is linked to South Pachwara coal mine and there also we have just completed the phase I exploration only. It is expected that we may start the mining of coal in South Pachwara by 2023-2024, and we may start getting coal from there by that time, but in the meantime we are getting bridge linkage and we are trying to secure coal for commissioning and beyond for the intermittent period from other places and Talabira is also one of the options.

Dhruv Muchhal: Last question. Again, sorry if it could be a repeat. Last time in the call you had mentioned that you had some pending finalization of the lignite transfer price and last time there was some under-recoveries with some of your state DISCOMs, I believe Kerala had filed a petition against the lignite price determination. Any update on that and is there any financial impact in our Q3 numbers because of that?

Rakesh Kumar: The notification of CERC on the pricing of lignite and coal has been issued on September 13, 2021, in which the period allowed for filing the petition was mentioned as two months, but because the petition can be filed only after getting the truing up order, therefore we have applied for extension sighting this reason and CERC has acknowledged our reason and therefore, they have allowed us to file the petition two months after getting the order of truing up and this truing up order is expected soon and after that we will be filing up our petition. In the meantime, we are adopting a provisional lignite price of Rs.1950, which is taking care of the Kerala order also and for coal we are having a provisional transfer price of Rs.477 per ton and after the filing of petition we will be adjusting these accordingly.

Dhruv Muchhal: Got it. Because of the provisional lignite price of Rs.1950 / Ton, is there any under recovery currently which is hitting our numbers and once the order is passed what could be the recovery there? I meanwhat could the annual impact be.

Rakesh Kumar: This Rs.1950 we do not envisage any under recovery.

Dhruv Muchhal: There is no under recovery as such even with the order. Okay, perfect and one quick last question is on the other income. The other income declined, I believe this should largely to do with the LPS, the LPS has come down.

Rakesh Kumar: Yes, see the surcharge income has come down from Rs.838.02 Crores to Rs.296.57 Crores in the nine months of the current year as against the corresponding period of last year.

Dhruv Muchhal: Going forward you should expect a lower LPS now.

Rakesh Kumar: Yes, and that should give more financial help to the company and at the same time there will be a corresponding decline in the working capital interest. In these nine months, we have already got the dividend from NTPL to the extent of 194.74 Crores.

Dhruv Muchhal: Sure Sir, it is great and that is all from me. Thank you so much and all the best.

Moderator: Thank you. The next question is a follow up from the line of Rahul Modi from ICICI Securities. Please go ahead.

Rahul Modi: Just a couple of more questions. With regard to the amount of money spend in the Talabira coal mine if you could help with that and also what is the cost of production that we are currently booking in the mine all inclusive?

Rakesh Kumar: The capital expenditure, which incurred so far up to December is Rs.918 Crores against the sanctioned project cost of 2401.07 Crores and in the current year nine months, we have spent Rs.125.43 Crores out of this Rs.918 Crores and debt equity is 70/30, and your next question was that how much is the cost of production. From Talabira mines, we have got a profit of around Rs.260 Crores during the nine months.

Rahul Modi: How much? can you repeat?

Jaikumar Srinivasan: See ultimately the transfer pricing will all be decided by the CERC, but right now as far as the cost of production is concerned it is close to Rs.700 per ton.

Rahul Modi: This is the cost production and are you billing at the same rate?

Rakesh Kumar: Basically, we have sold the surplus coal on our auction one, we sold it at the rate of Rs.998 /ton to the extent of 1.57 lakh tons and auction through in May 2021 we got the price of Rs.998 to Rs.1008/ton which we got for 19 lakh ton and third auction we conducted in November 2021 for 5 lakh ton for which we have got the pricing of Rs.1834 to Rs.1884/ton.

Rahul Modi: The pricing has increased almost 100% over one auction that is quite encouraging. How is the earnings, just to understand, till your plants start, so what will be the typical business model in this? Obviously, there is a particular auction rate that you are selling at and there is there is a cost attached to it, so how do we see in terms of understanding the numbers better in terms of revenue cost

Rakesh Kumar: In the long run, we will have to see how our end-use plants requirement is met and they come up and how we are selling the coal to what extent. Based on the guidelines issued by CERC, we will be filing our petition and based on the decision made by CERC, we will be able to arrive at the final numbers.

Rahul Modi: What about the profit that we are booking currently that we reduced from the cost. Is it?

Rakesh Kumar: Provisionally, we can consider this numbers because end-use requirement is to the extent of 2.5 MT only in the current year and against that we have been able to use only 0.67 MT for NTPL, so there are provisions, which will give us a room to book some profit also. We are working on that these are provisional figures and we will be able to get a clear picture after filing the petition.

Rahul Modi: What about the progress on the Talabira power plant any progress has happened there?

Rakesh Kumar: I would like Director Power to share his thoughts.

Shaji John: On the Talabira project, right now the tendering processes have started so on an EPC mode, we have processed the tenders and by the mid of March-21 the bid opening dates are fixed. On the other hand, once the bids are opened, we will be seeing further, depending upon some negotiation or some discussions will be there, and it may take some more time to finalize this. Meanwhile we are under discussion with the district authorities and state authorities for land acquisition also; however, the power purchase agreement needs to be firmed up which we are accepting shortly with our beneficiaries like TANGEDO and Pondicherry, they have almost confirmed, so this is the timelines now on progress on the Talabira project now.

Rahul Modi: Sir the FGD orders for our current thermal sir for Ghatampur which you mentioned so when are we expected to issue the tender.

Rakesh Kumar: Yes, it is expected to be reissued very shortly, should not take much time.

Rahul Modi: Sure Sir. Thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments. Over to you Sir.

Rakesh Kumar: We have progressed in these nine months as compared to the last year. Last year was a setback because of the incidents, but as against the last-to-last year, we have made some reasonable growth also and, in the time, to come, we are hopeful to achieve our internal targets set for lignite and coal and power generation and we are hopeful that we will be able to meet the expectations of the stakeholders. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Securities Limited that concluded this conference. We thank you all for joining us and you may now disconnect your lines.