Reliance Power Limited Q3 FY14 Earnings Conference Call

February 07, 2014

Moderator: Good evening ladies and gentlemen, welcome to the Reliance Power Q3-FY14 Earnings Conference Call We have with us senior management team of Reliance Power represented by Mr. Shrikant Kulkarni, Mr. Venugopala Rao, and Mr. V.K. Reddy. 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. At this time I would like to hand over the conference to Mr. Shrikant Kulkarni, who would provide an update on the performance for the quarter, and also the update of the projects. Thank you. And over to you Mr. Kulkarni.

Shrikant Kulkarni: Good morning, everybody. Thanks for joining the call. The numbers for the quarter are with you for some time now, so, I really do not intend going through the numbers, and we can take any specific questions on numbers as we move along. But just the qualitative dimensions of the performance, mainly the operating SPVs, and then we can take questions-and-answers and deal with the numbers as well as any other queries on both the operating as well as under Construction, Development project that you may have.

To start with Rosa:

Rosa continues to demonstrate a very strong operating and financial performance. As you would have noticed, the availability has been quite high – 97%, and important to note that this is despite the fact that one of the four units we have, four 300 MW units at Rosa, one of the units was taken for a planned overhaul in the month of December, and the Plant Load Factor (PLF) was 84%, again this was the highest PLF for the three quarters that we have seen. If you really look at a quarter, then typically depending on whether overhaul is taken or not, which again is linked with the demand factor, which again depends on how the distribution company wants to give its acceptance for the overhaul, you would tend to see some variation from quarter-to-quarter, but if you really look at a 9-month period, which is at the end of the third quarter, then you find that the availability for Rosa is 96% vis-à-vis 87% for the 9-months in the previous financial year, and Plant Load Factor is 79% for the 9-month period vis-à-vis the 9-month period of the 77% for the last financial year. So, both on availability and PLF front the 9-month-to-9-month comparison 96% Vs 87% and 79% Vs 77%, that speaks quite well on the operating front.

In terms of tariff:

As you know, this is a regulated tariff EPA, where the UP Regulatory Commission decides the tariff. The important aspect which I am sure you would want to know about is the Coal availability. We maintain good Coal availability for the station; we have done that demonstrably in the previous quarters. Purely, in terms of mix, what we have seen is the domestic linkage Coal and the imported Coal, by tonnage the mix has been roughly of the order of 60:40, and in terms of heat value in kCal terms is roughly around 50:50.

The other important dimension being the receivables on the financial front. Receivables have been well within the target limits, in fact, they are just around a month which is around 35 days or so, and that is the receivables which are due for payment from the DISCOM, so that is quite creditable in terms of 35 days of receivables is quite a good target and well within the targets.

Moving on to Solar PV:

Where again the quarter saw the PLF of 20%. This if you compare with the corresponding quarter in the previous year, it showed a 3% increase. As you know that this is the project which is selling power again at regulated tariff to RInfra's Mumbai Distribution. The Solar PV demonstrates a very high, very positive operating performance. Then you have the Wind Project which is an operating project. There, the PLF for the Q3 was 12%, and this was in line with the seasonal variation that we expect for a Wind Project. As you would probably recall, that Q2 where the operations have begun had seen a fairly high PLF, and that is a quarter where actually we get good wind conditions, so relative to that this quarter the PLF is low, but that is in line with the seasonality. And again Vashpet Wind Project sells power at a regulated tariff to RInfra. Then we have the Butibori project: One of the key developments for this quarter, which is Q3, has been that MERC approved the provisional tariff for the project entire station 600 MW that is 2 units of 300 MW for a 25-year PPA, which begins from Ist April 2014 that is a big milestone for the project. We are actively pursuing the FSAs, and FSAs would be signed well in time for our long-term supply under the long-term PPA to start, which is 1st April 2014. As we speak this project has a 134 MW net capacity PPA with RInfra Mumbai Distribution which has been awarded through competitive bidding, the tariff adopted by the MERC where the tariff is somewhere in the range of 510-520. This is where we performed our PPA obligations, primarily through third-party purchases and the PPA has been performed. So that is the Butibori highlights.

Turning on to Sasan:

During the period under review, especially second quarter, we saw the second unit making quite rapid progress. It got synchronized, went in on full load, and then subsequently got commissioned. You would have noticed that, we keep making progress with the remaining units. Boiler Lighter for the third unit has been achieved and we would see again commissioning happening in a month's time on that. The subsequent units also continue to make progress and we expect that these units would come on schedule as planned. The other regulatory dimension of this project being that, as you know that, we had petitions in CERC, the hearings on all these petitions have been completed, and the orders have been reserved, so we await those orders. And that in a sense is the Sasan, so Sasan continues to make progress with its construction, and the units which have become operational, they start stabilizing and we have seen that the first unit which was commissioned last year 2013, that has now fully stabilized, and in the month of December we saw unit recording PLF of almost 94.5%, so a pretty strong robust performance, so you will see as units come on stream, gradually they will stabilize and then they will start demonstrating strong performance as has been the case with the first unit.

I think let me pause here, because that kind of covers all of the projects which are currently under operations. Then we have of course the projects under Development and Construction. But I am sure you would have some queries on those and it would be best that we respond to those and I must say that there has been some progress on clearances and permits on some of those projects. So I am sure in response to some of the queries that you may we would cover those. So, I can now take the questions.

I think this format actually allows us to take probably more questions than otherwise would have addressed, so we can now take Q&As.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question, may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. Anyone who wishes to ask a question may press '*' and '1'. The first question is from the line of Deepak Agarwal from Elara Capital, please go ahead.

Deepak Agarwal: A few questions from my side. First, on the housekeeping one. Can you share the sales EBITDA and profitability for the Rosa plant which you have done during the third quarter?

Shrikant Kulkarni In terms of the quarter under review, the operating revenues are somewhere in the range of Rs.1,373 crores, so that is the revenue number for the RPower as a whole, and Rosa is the key contributor – contributes roughly around 85-86% in terms of revenue terms, in the EBITDA terms, you would find that the Rosa holds similar or little more than 85-86% kind of proportion, the overall EBITDA kitty that is there at RPower level, that gives you some appreciation of what would be the Rosa revenue and EBITDA. I really do not have the handy numbers at the bottom line, PAT level, but that gives you a fair appreciation of the overall Rosa revenue as well as Rosa operating performance.

Deepak Agarwal: What is the extent of the loss that we have booked in the Butibori plant?

Shrikant Kulkarni Butibori has no loss, Butibori as you know that we have this PPA, it is a 134 MW net capacity, and the tariff was discovered through the bidding process, it is a medium term PPA, the tariff adopted somewhere around Rs.5.10-5.20 by the Maharashtra regulator. As I mentioned earlier in the briefing that we have performed the PPA obligations by arranging supplies through the alternating source. Essentially, the short-term gridded power market, you have the BT segment of it, that is where you really procure your power from, the power is procured at something like Rs.3.40-3.70 kind of range depending on situation. So clearly Butibori is generating positive for us during the quarter.

Deepak Agarwal: If you can share some number on the EBITDA and PAT from Butibori?

Shrikant Kulkarni I have given all the building blocks of it, you know the tariff, which is Rs.5.10-5.20, you know the procurement number, which is somewhere in Rs.3.40-3.70, you know the capacity that we are setting 134 MW. And I must say that the PPA has a target availability of 85%, of course, it is not as if that each quarter you just do 85%, because the 85% obligation is essentially an annual obligation, so especially I must say that the Q3 under review, we had in fact surpassed the target availability levels of 85% pretty significantly. So that gives you a flavor of all the building blocks of how Butibori has faired during the quarter.

Deepak Agarwal: Moving on to Sasan, do you still maintain the guidance of June 2014 for the commissioning of the balance 4 units, or do you expect some kind of slippage versus what we discussed during the November Concall?

Shrikant Kulkarni: I think that is a good question. Since you have referred to the November Concall, I take you back to the discussion and the briefing we had on the Sasan balance unit commissioning during the November con call. You would recall that I mentioned that there are 6 units of 660 MW and there are essentially two islands: each island having 3 units of 660 MW, and when you go through the process of execution of projects, there are balance of plants which are specific to islands, there are balance of plants which are taking care of the whole station as a whole. And when you actually commission the first unit in a given island, there being two islands, that is always kind of an uphill task because you are actually testing, commissioning, stabilizing, everything. The unit itself, the balance of plant for that island as well as the balance of plant and everything, the things which are at a station level. Once you have done that in each of the islands, then as you take the subsequent unit in the same island, actually, the benefit of going through that uphill task for the first unit accrues to the second and third units in the respective island. So on the face of it, you may see it to be a very challenging thing, and I am not saying it is not challenging, it is challenging, and the whole management team, both our commissioning team and the construction team, they are all working round the clock. But that said, there is a clear understanding in a precision that we need to bring to the table on this, and I think you also bear in mind the fact that as far as the whole construction effort and the commissioning effort is concerned, the mobilization that we have actually done at the site is of such a significant magnitude, and then there are separate teams working on each of these units within the island, and we have been able to mobilize at a very high level, as we speak there are almost 20,000 people working at the site. So it is a fairly mammoth unprecedented kind of level of mobilization that we have witnessed and we are maintaining that. So all put together when you look at it, once the first unit in each of the island has come, for balance units to come in a relatively quick succession and get stabilized in a relatively smoother fashion compared to the first unit in a given island is something which has a sound technical rationale. I think that is the strong technical rationale combined with the humungous effort that has been taken by the construction and the commissioning team, I think that gives us the confidence to say that, yes, we maintain the schedule as we have said earlier in the month of November.

Deepak Agarwal: Just last thing, any update on the Tilaiya UMPP as a part of this compensatory afforestation?

Shrikant Kulkarni Yes, you are right. And good those questions are being asked to a greater large enables me to actually cover some of the projects which are currently not in operations, but in the development or construction stage. Tilaiya being one of the important projects for us in the development stage, you are right, the quarter we saw, the progress on where the compensatory afforestation for the purposes of forest clearance, the whole decision that got taken at the CCI level, and which got subsequently disseminated in public domain is that essentially the project is being treated as a central government project and therefore the SPV will essentially not be required to acquire the non-forest land for the purposes of compensatory afforestation. It would be essentially required to pay for that land. So that certainly cuts down the time required to acquire a fairly large quantum of non-forest land that would have been required had the original condition stayed. So that I think is very positive, and a big relief. I do not know whether you have noted this, they have not really confined themselves to the Tilaiya project alone, they have taken this decision in the context of the UMPPs, wherever you have an UMPP and it will involve the forest diversion, and then you have a compensatory afforestation coming into the picture, then the project company concerned would be treated as a central government company doing the project and they would not be required to actually acquire the non-forest land, and give it to the state forest department, but they will essentially have to only pay for it. So I think that really from execution timeline angle is a very positive development, and that has happened in case of Tilaiya, and I remember in the month of November, some of you had raised kind of a point as to are we seeing any progress really happening on some of these clearances and permits front arising out of the mechanism which was created where the cabinet secretariat had started monitoring projects very-very closely and the projects were then through the process of review, which used to take place across various ministries where ultimately taken to the CCI, that process has indeed started now yielding results and I think this is a visible manifestation of that. That is a positive development as far as Tilaiya is concerned. Now what will happen as a result of this is that the Ministry would then inform the state government because at the end of the day, all the land issues, etc. are at the state level, so that process of communicating down the line to the state is what is awaited now, but clearly, it is a very positive development for Tilaiya, and I can now therefore also say that this would also apply to the other UMPP which includes Sasan UMPP, so that extent the whole forest clearance for Chhatrasal also should logically follow the same line as is the case with Tilaiya.

Moderator: Thank you. The next question is from the line of Girish Nair from BNP Paribas, please go ahead.

Girish Nair: I just firstly wanted to know what is the status on the case in CERC regarding Sasan COD?

Shrikant Kulkarni Yes, since you are fairly familiar with the case, I would only give the status update, you would recall that the APTEL had set aside the CERCs original order, and they had asked CERC to hear the matter again, which CERC has done, there was a hearing on sometime during the month of September, and then there was a hearing sometime during the month of December, and then we had the last hearing which happened in the early January, and thereafter essentially now the order is reserved by CERC, so we await CERC order in this matter. So, hearings are all complete now.

Girish Nair: And secondly, what is the tariff that you are currently selling at Sasan?

Shrikant Kulkarni Sasan, as you know that we are in the second year, so there is a tariff profile, which is somewhere around 70 paise is the second year tariff.

Girish Nair: What would be the variable cost at Sasan right now or variable cost per kWh, or if you can tell us the Coal cost per ton, something like that?

Shrikant Kulkarni I am sure you have been kind of tracking this as far as Sasan is concerned, we are capitalizing the Sasan as a station as a whole when all the six units are completed and the last unit gets commissioned. In the intervening period, there is really no unit wise P&L or that has been sort of kind of maintained. Now we have will have two units generating, they generate power and whatever earns some revenue, they essentially go into the project cost account as a positive contribution. So at this point in time the variable cost or any other such measure is really not there at the unit size level, so that is where we are.

Girish Nair: Secondly, I just had a doubt on this, since you have not declared the COD, would it not count as infirm power and when you inject that power should it not be charged at UI rates or something, how was this never considered?

Shrikant Kulkarni No, we have declared COD for the first unit, which is March 2013.

Girish Nair: The only thing is that it is under dispute right now, fine. Lastly, I just wanted to know the progress on Tilaiya: How much land has been acquired there? Have you been able to arrive at some sort of a timeline to start construction of the project?

Shrikant Kulkarni As you know that the Case-2 integrated project, PPAs are pretty much in place and well known, as far as land is concerned the land for power plant as well as the water pipeline which goes to the power plant, that is completely an obligation of the procurers, and there we have already done that, the land is acquired, it is essentially the Coal-backed land which is where the process is on, and the point which I mentioned earlier, the whole decision that was taken in terms of forest clearance, the compensatory afforestation, that really helps you acquire the land for the Coal block in a relatively faster way because you really do not need to then acquire a non-forest land for the purposes of compensatory afforestation and hand it over to the government, you do not need to do that because you are being treated as a central government project. So that process is on. Coming to the question of "when does the construction for Tilaiya start," I do not know whether you have noted that there has been a considerable timeframe difference between the award of the project, then also this whole activity of acquiring land which had to be done by the procurers and handing it over to the project company, and that has taken time, in the meantime a whole lot of parameters have changed, and we have applied to the regulatory commission CERC in this case, seeking some kind of relief there, and I think we would keenly watch that process. We hope that process comes to a logical conclusion sooner. And once that is done, then the decks would be cleared in a sense that we are then ready to proceed with the actual construction of the Tilaiya project.

Girish Nair: Just to clarify, you are saying essentially that until a CERC verdict comes through, you are not willing to start construction, because that will spun a risk of under recoveries in the …?

Shrikant Kulkarni Naturally… that is right. I think what we need to appreciate that, you have the land acquisition, the R&R cost, this project was awarded long back, at that time the estimates were made by the nodal agency EFC, and now over a period of time all these costs, they are at a fairly significant higher level, dimensions are different, so naturally the petition disposal is very, very critical and important from our point of view due to get going with the project construction.

Girish Nair: Finally, just could you also update us on the progress on Sasan-2 and Chitrangi and whether we can put some timelines to the start of construction, if possible?

Shrikant Kulkarni Sasan Complex if I take, you have the UMPP there, and in that whole sort of geographical area, you have Chitrangi sites, then you have an ability to expand at the Sasan existing site, and put together, you have somewhere in the vicinity of let us say 6,000 MW of ability to add additional capacity. Now Chitrangi is a separate site and Sasan expansion in a way is a Brownfield site. I am sure you appreciate the fact that the economics of Brownfield expansion always looks more attractive. All those facts being there, you would have seen that with regard to this whole aspect of compensatory afforestation there has been a progress because the CCI took a decision for all Ultra Mega Power Projects, not just Tilaiya alone, that they would essentially not require the company to acquire non-forest land, so that helps the Chhatrasal Coal block as well. The other critical determinant being the environmental clearance for the Sasan expansion project, because as far as Chitrangi is concerned, decks are all cleared in terms of the various clearances and permits. The environmental clearance for Sasan expansion or Sasan-2 as you mentioned, we again are at a fairly advanced stage, very soon the EAC coming next week, which would be going through our submissions and then granting the EC for the expansion project as well. So the forest clearance for Chhatrasal and the environmental clearance for Sasan expansion are the two critical determinants, and the way they unfold, on the timeline of that will essentially set the clock for construction activity for the first capacity in that area to start. So we will take a call once these two clearances come through, and then depending on that, and depending on overall economics of expansion versus Chitrangi, we will take the call and then commence construction. But these are the important pegs that need to be in place for us to start the construction.

Moderator: Thank you. The next question is from the line of Pankaj Sharma from UBS India, please go ahead.

Pankaj Sharma: I had a question on Rosa where you said that the situation on receivables has improved considerably. I just want to check how much of it has been contributed by the fact that UP has gone ahead and implemented the SAP FRP package, how it has improved versus the situation before that, like have you seen a significant impact of SAP package impacting the receivables in a positive way for the generation companies?

Shrikant Kulkarni I think your question itself answers, yes, it is true that UP was one of the initial set of states, which went through the whole process of FRP, and it got approved, I think this has certainly improved the distribution companies ability to access the bank funding, essentially the working capital funding, so the answer to your question is 'yes.'

Pankaj Sharma: Sir, the second question was on Sasan, how much is the Coal consumption as of today in Sasan? And what is the cost you have to incur to produce that Coal?

Shrikant Kulkarni Again, I think one of the earlier participants had asked a similar question, and as I mentioned that we are capitalizing the whole station once all six units are completed, therefore, there is really no specific unit wise numbers that have been generated. At this point in time, I think, yes, the power gets sold as per the PPA, but the individual unit level costing is really not in place, but I can only say that since it is all captive Coal mine, the control over the cost, quality, quantity, all those parameters is significantly superior compared to a situation where one is dealing with the linkage Coal. So that gives a tremendous both competitive and cost advantage.

Moderator: Thank you. The next question is from the line of Mohit Soni from Goldman Sachs, please go ahead.

Pulkit: This is Pulkit from Goldman Sachs. My question is more in regards to the Coal banking proposal that was under consideration. From what we understand that the government has rejected it, just wanted to understand what is your take on this, and how you are looking at the same going into the next few years?

Shrikant Kulkarni I think we need to appreciate Coal banking is more like a transitory kind of strategy or a monetization. It is not a long-term approach. What essentially, as we understand again, because through association of our producers, we have been quite closely engaged in the effort that APP has been making in this regard, and there the government is essentially saying that Coal India where today the Coal scenario is you have a significant deficit in terms of domestic linkage Coal, and if one were to really bank a Coal with Coal India and say that okay after x number of years give that Coal back to me, then today given the whole demand/supply scenario Coal India is really not in a position to make contractual commitment. I think that is important reason why they seem to have that kind of thought process. But that said, again we understand based on the APP's dialogue is that they are not ruling out possibility where, imagine there are two entities who have captive Coal blocks and 'Entity-A' has let us say has Coal which is available because its power station requirement are going to be less, but its mine is producing and producing more than what power plant needs, and it has a certain temporary surplus available, and the other project where for maybe for some reason it could be no go, or some other problem, the captive Coal mine has not developed at the same speed as power plant, and the power plant has gone ahead, then it is conceivable that subject to of course, the Government of India all approvals in place, the 'Entity-A' can give to 'Entity-B' Coal on a banking basis and take it back through mutually agreed and government accepted terms at a later date or in a later year, now that is something which has not been ruled out, because it is between Entity-A and Entity-B both having been awarded the captive Coal blocks with the power plant end use. Now, what they are essentially also saying, which again we understand based on what APP has been dialoging, is that the whole policy, which Ministry of Coal is working on in terms of how does one deal with this issue of surpluses which may be of a temporary nature, or which may be of a relatively longer term nature, because maybe the company in question has deployed some high end technology, superior mining methods and techniques and so on and so forth. So if there are long term surpluses are there or there are temporary surpluses, there ought to be a policy, so that it does not become a one-time decision, but it is a policy framework. So that policy we understand that the government is actively wanting to develop, and they would address this whole aspect of banking more so between the two captive Coal block allocatees through that policy framework, that is what is our understanding. So, the Coal India route may have been rejected, but then there are other routes, and ways of dealing short term surpluses through the Coal banking between the two entities, captive Coal block allocatees is something which has not been ruled out, and it should become a subset of the overall surplus Coal policy.

Pulkit: Secondly, if you could just talk about the total debt number which you have on the balance sheet today?

Shrikant Kulkarni That is roughly if I understand is in the vicinity of around Rs.28,000.

Moderator: Thank you. The next question is from the line of Mohit Kumar from IDFC, please go ahead.

Mohit Kumar: A couple of questions, first is, how many units are sold from third-party to Reliance as per DISCOM and why?

Shrikant Kulkarni As I mentioned this is the PPA obligation, which is 134 MW net capacity, the target availability being 85%, which is an annual obligation, quarter-to-quarter there can be a variation, but that is essentially the quarter in question, that is the number, so you can just look at that number, it is around 290 million units.

Mohit Kumar: And second question pertaining to Sasan, when do you expect Sasan to be consolidated in the P&L?

Shrikant Kulkarni That should coincide once the last unit comes on stream at the end of June.

Moderator: Thank you. The next question is from the line of Amit Shah from Credit Suisse. Please go ahead.

Amit Shah: Sir, I remember that the first loan repayment for the Samalkot project was June or July 2014. Is that the correct understanding first of all?

Shrikant Kulkarni No, that is not, it comes in the month of April 2015.

Amit Shah: Secondly, you said that the Rosa receivables situation is improving. Could you give us the quantum of what the receivables are there?

Shrikant Kulkarni Receivables which are due to be paid by the distribution company are of the order of around 35-36 days of billing, that is the order of magnitude, so, that should be around Rs.400 odd crores.

Amit Shah: So versus like around 60 days which is the norm, only 35 days is outstanding, that is what you are saying?

Shrikant Kulkarni That is right.

Amit Shah: And that is why you think it is improving, because earlier it used to be around 60 days and it has now come down to 35 days?

Shrikant Kulkarni Actually, if you see over the last few months, we have been maintaining lower receivable levels as far as the Rosa is concerned.

Amit Shah: Lastly Sir, the 600 MW of Butibori which has now got a provisional tariff, so the provisional tariff for the entire 600 MW is close to 5.1 right now or that was only for 135 MW?

Shrikant Kulkarni That was for essentially 134 MW which was a medium term PPA, which gets completed on 31st March 2014, and the provisional tariff that you are referring to starts from 1st April 2014.

Amit Shah: What is the provisional tariff?

Shrikant Kulkarni There is a tariff order on MERC's website, and as you know, what they do essentially is, they give you a kind of revenue requirement approval and then they establish for the variable cost elements, which have certain efficiency parameters, this is what they stipulate, and then as far as fuel is concerned, for cost plus projects, it is essentially a pass-through depending on what mix of fuel I am able to get, so whatever is the mix of linkage coal and market coal, that Butibori will use, that will determine the variable cost. So once you really start operating and start getting our FSA and then we will establish, like in Rosa, there is a track record. In Butibori once we start the long-term PPA and start getting linkage supplies, it will give us a reasonable basis to say that okay, that this is the kind of mix that we are getting, because we also need to bear in mind that the Coal India subsidiary is Western Coalfields, which is a different one, so that will determine the variable cost, I think as far as the overall order is concerned, what is the ARR approved, under the MYT regime of the MERC, that is all available on the website, so it is all there in the public domain.

Amit Shah: Would you be able to at least tell us what is the capacity charge approved there?

Shrikant Kulkarni The same was around Rs.2.20-2.30, and they have approved significant chunk of that, because this is a provisional one. Once the project is fully completed and it starts supplying power, then their final approval come in. So capacity charge is in the range of I think slightly over Rs.2.

Moderator: Thank you. The next question from the line of Rakesh Vyas from HDFC Mutual Fund, please go ahead.

Rakesh Vyas: A few questions from my side. Just can you highlight what would be the project cost ultimately at Butibori and the question related to that as well is the second unit has been ready for some time, it has not been commissioned because we do not have PPA. So, in the interim the IDC that gets built up, does that become a part of the regulated project cost as well? That is the first question.

Shrikant Kulkarni Butibori project cost, as we complete, again there is a regulation on this by MERC as a part of its MYT regulatory framework, and the regulation actually says that when you do the station COD, that is the time, whatever is the exchange rate that has a bearing on what exchange rate to be recognized for the purposes of converting the dollar financing portion of your financing side into rupee, and then calculate the project cost, so it is all a function of what would be the exchange rate, the COD which we would typically achieve close to commencement of long-term supply under the long-term PPA which is 1st April 2014. So it should be in the vicinity of Rs.4,000 crores, that is the order of magnitude I can say as far as project cost is concerned. Again, the open issue being what is that exchange rate, and then consequently you asked the question about the interest. So when you do COD, the IDC for the second unit will go up to that point, and that would get subsumed into the project cost, so that becomes a part of the project cost which is what we had filed with the commission, taking into account the project completion, the COD coinciding with the commencement of the long-term supply under the long-term PPA.

Rakesh Vyas: The power that you are trading currently, the cost of that is built into power and fuel cost in the P&L, is that a correct understanding from Butibori? And Butibori has not been operating for this time.

Shrikant Kulkarni: That understanding is correct.

Rakesh Vyas: Butibori essentially, even the first unit, although it was commissioned has not been operating because you are meeting all the obligations through the third-party.

Shrikant Kulkarni As per the approved PPA by the regulator.

Rakesh Vyas: Also just wanted to understand, we have been hearing a lot about UP facing the power crisis, and the availability on our plant has been very robust, however PLF has been slightly lower, rather the difference between PLF remains continuously very high. My understanding is beyond the targeted level, they just need to pay the marginal cost and some incentive, which essentially would take that cost to around Rs.3.50 and UP has other power projects where they buy expensive power as well. So why is that PLF at Rosa not going up? I am asking this as well because on this marginal incremental PLF, the additional profit that we earn is also going to be very significant because of heat rates, etc.

Shrikant Kulkarni I think you mentioned that the PLF has been low, but when I look at the numbers for 9 months of last year, because FY13, the PLF was 77% at the end of the third quarter. At the end of third quarter, as we speak in this year, FY14….

Rakesh Vyas: No, I got your point. What I am trying to highlight is that in the 9 months, the PAF has been 96%, so availability has been very strong, compared to that, the PLF is lower, and although for the incremental PLF, what they need to pay is just the marginal cost and the incentive.

Shrikant Kulkarni I appreciate your point that the PLF is more then, obviously the performance will look much even higher. But that said, we need to appreciate a wide variety of points, and it is a mix of so many factors as you can appreciate, that there is of course, the more significant fundamentals like demand, the whole system, and a certain degree of seasonality that gets induced depending on the monsoon and the non-monsoon periods, and stuff like that, so this is one aspect. The distribution company would naturally of course also keep one eye on its finances. This is a second important aspect. And of course, there are the other factors, where distribution company may want in a given timeframe to actually have a very high level of dispatch given to a station, because maybe the government during that timeframe wants to ensure completely 24/7 kind of supply. So there are a host of factors which will have a bearing on the overall load factor on the station. I think what we also need to appreciate is that it is not just the PLF in absolute terms, but whenever the machine runs, does the machine run at a high loading factor for that period. And then if that loading factor is high, because then you are essentially ensuring that whenever it is running, it is running at the highest efficiency. So, that is another aspect. So I think to say that if your availabilities are in the 96 or 100s and therefore you are going to get the load factors in that kind of vicinity, it will not be a very realistic assumption to make, especially given the complexity of issues involved, both more fundamental economic issues and there are certain not necessarily of pure economical issues also going into it, in the sense that there may be considerations where they want dispatch to be higher, and some of these where maybe they do not want the dispatch to be higher, so they will be balancing all these factors, including of course their own finances. So I do not see 77 or 79 this year kind of a number to be a low number, I think we should be looking at somewhere in that vicinity of 78-79-80% kind of load factors, which is what you will see when you look at other stations also, and that is where it is going to be.

Rakesh Vyas: Why is this Rosa still on provisional tariff – are there final petitions pending?

Shrikant Kulkarni It is a regulatory process, so the process takes its own time.

Rakesh Vyas: But I think we commissioned almost both units in FY11 itself?

Shrikant Kulkarni We are referring to the Phase-II, wherein there is a provisional number, and that is what is getting concretized now. Typically also there can be cost plus regulated tariff project, there can be certain subsequent capitalization process that may happen. So what you are really commenting on is essentially Phase-II and not the Phase-I.

Rakesh Vyas: But it has been quite a long time, that is what I am trying to understand, we commissioned this particular unit in…

Shrikant Kulkarni That process is on, so it will reach its finality.

Rakesh Vyas: Sir, one last question, what do you expect the Sasan project cost to be? And if there is any cost escalation how is it going to be funded?

Shrikant Kulkarni As far as Sasan's project cost is concerned – again it is like the question was asked on Butibori – here again the exchange rate scenario as it moves through the remaining part of the balance unit commissioning will have a kind of bearing on the project cost, but it will be around somewhere in the vicinity of Rs.25,000 crores, that is the kind of a number that one is really talking about. Now, when you stated in rupee terms, you convert it into a dollar portion into rupee, and therefore you state it in rupee at a higher level depending on the exchange rate, but the fact remains that to the extent that you have tied up a significant amount of matching dollar financing to address the dollar capital expenditure, then the funding aspect of it is kind of addressed through the structure of financing, in the sense that you are essentially not falling short on the dollars, because you essentially match the CAPEX with the dollar financing, and that has been our approach as well in terms of sort of financing of Sasan. So, then the other aspect to be looked into is that, two already done, four remaining, the units have been commissioned, and they are generating certain amount of revenue, so to an extent whatever surpluses they generate they come in sort to help, they also become a kind of source of finance for the project cost. So, that all put together takes care of the increase in the overall project cost in the rupee term.

Rakesh Vyas: Essentially there is no significant gap in terms of domestic loan requirement per se for this project and this Rs.25,000 crores excludes the CAPEX to be incurred for Chitrasal, is that right?

Shrikant Kulkarni I do not exactly have, I am sure we would have taken a part of Chitrasal funding into this, because as you know that Chitrasal and Mohar-Amlohri extension, all three blocks they are part of the Sasan Power Limited, so it is part of the one SPV.

Moderator: Thank you, the next question is from the line of Avinash Sharma from HDFC Securities, please go ahead.

Avinash Sharma: My question is on Samalkot. With the domestic gas price going to increase from April onwards, what are your thoughts on the viability of the project even if domestic gas were available?

Shrikant Kulkarni This is a sectoral issue, let us appreciate that. The role that Gas-based power has to play in the overall Indian power system is in essence going to be determined by both the availability of gas whether it is domestic natural gas, or it is imported LNG, which is then converted into RLNG, or the pricing which is underlining the gas. So both aspects are important. Whether as a consequence of that, the confluence of these two factors, whether the Gas-based stations are effectively operated as base load stations or they operated more like intermediate load, somewhere in the 60-65% kind of PLF, maybe as a pure interim measure, not necessarily a long term measure, maybe add 40% PLF depending on the gas availability is a significant enough debate that is Ministry of Power, Association of Power Producers, we as individual developers are engaged in now. So, answering your question, as these projects are kind of, they get gas aid through improved gas availability because as you would have noticed that the government actually took a decision in the August EGoM that the gas that is being made available to the fertilizer sector which has a priority in the gas utilization policy, that is kind of getting capped to a number 31 mmcmd. So any additional gas that comes into the system, domestic natural Gas, it goes on a priority to the power sector. So that additional gas availability plus whatever APM gas that is now becoming available as you know the KG Basin Gas is really not coming into the power sector now. So that gas is incremental gas and then whatever imported LNG which the gas pooling that the government wants to work out, and they are trying to put the map of that in place. So the sense that I have is that, yes, these stations cannot be run more like a base load station, but they would essentially be positioned more like intermediate load station or maybe for a very short term as a peaking load station. I think you would also look into the aspect that the long-term marginal cost of coal-based power which is being discovered through the competitive bidding process in the states such as Uttar Pradesh, Tamil Nadu and Rajasthan, you have tariff numbers which are in the range of Rs.5.70-5.80, so it is not as if that the LRMC of the Coal-based power is significantly low. So, if gas-based power on intermediate load basis come in the range of Rs.6-8, the numbers on the face naturally would look high, but I think the system would need to really develop that ability to take it more on an intermediate load basis if not on a base load basis.

Avinash Sharma: Sir, you mentioned that debt servicing is going to start from April '15. So what will be the profile of this debt servicing – will it be like, a 12-year secular installments, or are there are bullet payments?

Shrikant Kulkarni I think that is a level of detail, which I do not have handy right now. I will request my colleague Kasturi to share that with you.

Avinash Sharma: Could you also give us some idea on the Coal mines in Indonesia, what is the update there?

Shrikant Kulkarni Yes, I think taking thread in the month of November, wherein we had said that we essentially work on a two-pronged approach as far as Indonesian coal mining concessions are concerned, there is naturally and understandably short-to-medium term I would say, an asset-light kind of an approach where we would produce a certain amount of coal and sort of transport and then sell it, short-to-medium term will take it to around 6 o 7 million tonnes, but the medium-to-longer term, the Coal production going in the vicinity of 20 to 30 million tonnes p.a., that is where we need to put in place an investment in logistics infrastructure. So what we are currently doing is that we are working on one parallel track of developing and monetizing this through our short-term strategy which we hope to achieve in the Financial Year '14-15, and as far as the longer-term strategy is considered, we are at the very advanced stages of completion of our studies, which will give a basis for us to launch the EPC bids for logistics infrastructure, and based on what we actually get through those bids, we would then start finalizing those contracts. So it is a mix of short term and long term, and one expects to achieve the short term strategy results in the coming Financial Year 2014-15, and the long term of course will take at least 3-3.5 years from now to start yielding the results.

Avinash Sharma: Finally, if you can give us a debt number for Sasan once it is fully commissioned in terms of US dollars?

Shrikant Kulkarni US dollars I would think it would be somewhere in the range of $1.6-1.8 billion kind of the USD component.

Avinash Sharma: And what will be total debt including the rupee debt?

Shrikant Kulkarni Again, I think as I said that the total project, we are talking about what Rs.25,000 which is again a function of the exchange rate, so typical mix of 70:30, these are all the building blocks of that.

Avinash Sharma: My question is on the rupee debt, you are saying it is around 70% foreign and 30% rupee debt?

Shrikant Kulkarni No, no, I meant the debt and equity. I must say that we have financing lines which if you add up all our dollar financing it is considerably much higher than what we actually need purely from a financing perspective. So therefore we will calibrate the whole dollar financing and that is why I was talking about this band. So depending on where that band settles, the rupee would settle accordingly. So therefore I am not putting a specific rupee number right now, but where this settles, $1.6-1.8 billion, depending on that the rupee debt financing will settle, and the overall debt-to-equity would be somewhere in the vicinity of 70:30.

Moderator: Thank you. The next question which is the last question is from the line of Girish Nair from BNP Paribas, please go ahead.

Girish Nair: First of all I wanted to know what is the cost escalation at Samalkot due to the delay in Gas supplies? And secondly what is the risk of a write-off of some of the expenses associated with Samalkot, I am asking because if you see, there is a Hydro project Subansiri of NHPC where the auditor qualified the statement saying that they have not written off some of the expenses as the project is stuck. So would there be a similar kind of risk that we should worry on Samalkot? So that is my question.

Shrikant Kulkarni This question has a lot of accounting angle to it, not so much of a business angle to it. So, what I would do is, I would request Kasturi to kind of interact with our CFO and then probably sort of discuss that with you. Because what you are essentially talking about is auditors, the accounting, and so on and so forth, so I think I can only say that purely from a business point of view, as a business person, what one would really focus on is ensuring that on one side you do all that is necessary to get to a point of monetization and ensure that it generates revenue and do all that is necessary, and also ensure that from a technical standpoint of view the asset is in a good condition, and that is what the focus from the technical side would be, and that continues to be our focus as well, which is what we do both on the business as well as the technical and operating front.

Girish Nair: And the cost escalation underway at Samalkot because of the delay?

Shrikant Kulkarni I think we must say that the contracts are awarded on a fixed price lump sum turnkey basis. So we ensure as such these issues really do not impact the overall cost. I think you are aware that the funding is from US EXIM, and it is on a very-very competitive terms. So to that extent the impact of that essentially is marginal actually.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was our last question. I would now like to hand the floor over to Mr. Shrikant Kulkarni for closing comments.

Shrikant Kulkarni: I think, I chose to actually not talk about all projects right at the beginning, only operating projects, and I guess through the Q&As that we had, we have practically covered all the projects. We did not talk about (CBM) Coal Bed Methane, and I must share with you that the two test wells that we had drilled, they are yielding very good results, as we keep dewatering them, they are producing increased volume of gas, and as we build greater confidence in terms of the Gas production there, we will then get into the next phase so, which is what we expect to do in the next financial year, so CBM is something which was not touched upon through the Q&As so I just thought that I will talk about that as well. Thank you.

Moderator: On behalf of Reliance Power Ltd, that concludes this conference. Thank you for joining us and you may now disconnect your lines.