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TRANSCRIPTION REPORT



Conference	Reliance Power 1st Quarter FY 13 Earning conference call
Company	Reliance Power Ltd
Date:	14/08/2012

Moderator

Thank you for standing by and welcome to the Reliance Power First Quarter FY13 Earnings Conference Call presented by Mr. JP Chalsani. At this time all participants' are in a listen-only mode. There will be a discussion followed by question and answer session at which time if you wish to ask a question please press '*' and '1' on the telephone. Please be advised this conference is being recorded today. I would like to hand the conference over to Mr. JP Chalsani. Over to you sir.

JP Chalsani

Thank you. Let me welcome all of you again for this quarter results. Last time we met in person during the annual results and this time it is a call. And I am sure that most of you would have had adequate time to go through the results it is now for about 6 – 7 hours or so before which we declared the results today. Obviously the numbers are with you just to have a recap of results on the consolidated basis.

We crossed the revenue figure of 1000. We are at 1,136 crores and the net profit is at 240 crores which is 22% up 196 crores which was recorded in the year-on-year basis.

And on the Roza project we had a deliverability of 81% on the overall 1200 MW basis and the 78% plus PLF. We generated over 2 billion units 2055 on this. We had an EBITDA of about 340 crores and a profit of 136 crores. This plant continues to operate at high performance levels. I am sure that when we go through the Q&A we will discuss about the PLF and could have been more, what it is, and what is the blend of coal and cost of fuel I am sure that there will be questions and we will definitely be able to answer each one of them.

The other project which has been operating and started contributing to the bottom-line is our 40 MW Solar PV was commissioned in the month of March. Full quarter it was there. It is now stabilizing and on an average it gave us about 17% PLF in this quarter and it added about 4 crores to our bottom-line on this and as you know that we have the PPA for this project with the Reliance Infrastructure for its RPO obligations at Mumbai. And this is now fully stabilized but there is nothing to stabilize in the solar plant but we have a huge amount of modules then we need to have SCADA system everything put in position so that you know which module is working and which is not working. All those things have come.

In the month of July in fact we reached a stage where estimate is based on designed efficiency of converting the GH into power. The estimate to the actual has been the same so we reached the level now that we are operating it in line with our GH on this. And Butibori you know that the first unit got synchronized in the month of June and right now as we speak we are now in the building up to the full load and stabilizing the unit and which hopefully full load

we will achieve in the next couple of days and then hopefully we will be able to stabilize in the next one week – 10 days for continuous operation of this unit.

But pending that as you know that we had the PPA with Reliance Infrastructure to supply 134 MW net capacity on a 2-year bid basis starting from 1st April, 2012 to 31st March, 2014. Using the PPA provisions we have been procuring power from various sources within Maharashtra and supplying to them and obviously we would get paid based on the tariff what we quoted to RInfra irrespective of whether we were able to procure at higher than that or lower than that. We were able to procure power at cheaper than that and our rate in the first three months was about Rs. 5 from the RInfra then we were able to procure it at much lower than that and in the process the Butibori project made about 18% of profit in the quarter on this. That's the operating plans of the business point of view.

And coming to the projects under construction – as I said Butibori 1st unit will get stabilized and would be ready for continuous operations by the end of this month and the second unit, we have done the hydro test and it should get fully commissioned and ready for continuous operations some time in November, the coming quarter.

As far as the coal supply agreement is concerned as you know that we have a coal linkage for both the Units. One as an IPP and one as CPP on this and though we completed the formality of signing the FSA for Roza and here we are still in the process of signing it and there are still clarifications moving between Ministry of Power and Ministry of Coal. Ministry of Power has said that all of those

projects which even selling the power in a short-term basis provided they are on a bidding basis should get the coal and plus also they are working towards saying that every single project for first two years should get the coal. So those clarifications are happening for the first unit. Hopefully we should be able to sign the FSA for that by the end of this month or early next month is what we are looking at.

The Sasan project which is the next project is on track as we guided the commission of the first unit by December or early January this year. As you know the hydro test for the first unit has been completed and we expect to light up the unit towards the end of September or early October, the first unit. In fact the commissioning activities have started. At 11 KV level we charge the system in the last three days pack. That is one of the first activities in any power plant to get the power supply for various commissioning activities.

At the power plant side we are on track with respect to the target what we set and on the mine side in fact some people have visited and some people are going to visit shortly I understand from various investors and in fact more and more coal is getting exposed and we should formally start producing coal some time towards the last week of this month and start stacking the coal at the mine end and supply to the power plant at appropriate time.

Right now we removed about roughly about 65 lakh cubic meters of ore burden on it and we commissioned about 14 of our own 240 tonnes dumpers and 3 shovels. The first shovel is commissioned and will get into operations next week. So most of the work is

being done by our own equipment now so that's the coal mine is in full shape.

As far as Samalkot is concerned the project is progressing and as you know that four gas turbines were ready earlier and two more are getting ready in this quarter. And the first module combined cycle will get completed by the end of this financial year. The issue with respect to the Samalkot is continued to be the gas which I am sure that there will be questions and will debate more in detail about our views on the gas and what's going to be the gas availability for this project and how do we think and there are some developments in determining the support tariff in states like AP and other southern states in the recent past. So therefore what is likely to be the support tariff and can we operated in plants at the pool gas basis and how it is going to work and some of those things which we are going to debate as part of our Q&A so before I am keeping it there further.

The Krishnapatnam is right now in the Delhi High Court on the division bench of this. We explained last time what we have done on this but still we will take. Actually we are disputing juries. They are saying we are very clear as per the PPA. What is written down there clearly it is a force majeure event and the procurer do not think so. So there is dispute today between us and them is to whether the change in law in Indonesia is a force majeure or not which I am willing to take questions and explain why do we think it is a force majeure from our point of view on this. We can explain which clause of the PPA is saying what on this and why do we think why is it necessary for an arbitration rather than to CERC in our case so I am willing to explain if one is interested on why we

did all that. Obviously of course I cannot explain the outcome on this and this has been the sub-judice but we can explain our stand on the Krishnapatnam project fully on this.

On Chitrangi during the quarter the GOM has approved the forest clearance for Chhatrasal. That's one major step as you know we were waiting for it. But then it has to be formally cleared by the FAC and approved by the Minister of Environment & Forest. We will get the Stage 1 and then continued to get the Stage 2. So we are awaiting that development of FAC which we understand that the reconstitution of FAC is happening has happened recently. And then the new FAC will look at this and clear the project. Once that clearance we have then we know as we said earlier we will know the clear time line for development of coal mine at Chhatrasal and that would decide the start of construction of Chitrangi project on this.

And the Tilaiya project is we are working with every possible agency that is the CEA, Power Government of India and the State government towards completing the land acquisition process. There are some challenges which we hopefully would overcome shortly. It is a question of procedural issue and nothing else on this and it is taking longer than what we expected for the state government to acquire the land. The Minister of Power recently had a review meeting along with us and along with the state government at Ranchi with the Chief Secretary and there are set of commitments made and we hope that these revised commitments by the Government of Jharkhand would be able to adhered to so that we get the land for the project so that we can start the initiation of the structure of constructional activities there.

And on the renewable site of the project – the PVs are under operation and the 100 MW CSP project is in full swing now and as per the PPA it is supposed to be commissioned by May 2013 and we are on track to do that. And the recent evaluation by MNRE of all the seven CSA projects what got awarded so we were told that there were only two projects. One is ours and one more of 50 MW are on track and the balance on a much behind schedule. They may or may not be but at least our project is concerned even National Certification said this is one project which would come on the dot as per the PPA and there is no need to change any time schedules. That is the reassurance from outside agencies that this project is on track.

The wind project of 45 MW is under development now and part of the wind turbine is commissioned already and the entire plant would get commissioned by end of this calendar year.

On the hydro side the Tato project which is 700 MW in Arunachal Pradesh got the Techno Economic Clearance of CEA and this project as you know we are trying to develop as fastest PPA with Delhi Distribution Companies and Mumbai Distribution Companies. The Delhi Distribution Companies have already filed a petition to the DERC for approval to sign PPA. DERC had one hearing already and there is one more hearing scheduled for this month and hopefully by the end of this month they would clear the PPA for 60% of the capacity with Delhi DISCOMs. Then similar process will follow for Bombay and we have already started the initiated the activities for financing of this project based on the cost plus route on this. All clearances are available. Land is ready to be taken over. We can pay and take over today. So therefore that's

first project is the one which we will get in the construction stage shortly on this.

Other two projects again in Arunachal Pradesh both Siyom and Kalai 1,000 MW and 1200 MW respectively. The DPRs are in CEA and Siyom is in advanced stage and we should get the TEC in a month or two and Techno Economic Clearance for Kalai-II is expected by the end of the year. That's on the hydro.

The last segment is the coal mines in Indonesia. As we have said last time that we have done the job reports for all the three coal mines and now in this quarter we have been working on establishing the contracts for each piece of the coal mining whether it is MDO or the coal handling system equipment or the initial road construction barging and everything. And that's one track which we worked and then by end of this month we should be in a position to clearly understand the cost of coal putting on to the ship on this based on the finalized negotiated contracts. And simultaneously we are also working on financing the project for the initial phase of it and third we have also done some work on off take of coal from various possible markets including China and other places of late. So that we will have more to share may be the next quarter when we have this call.

So that's the overall development of various projects on this in nutshell. Obviously when we run into the Q&A, there will be more detailed deliberation I am sure on each of the projects. So now I will open this for Q&A.

Moderator

Certainly sir. At this participants who wish to ask any question please press '*' and '1' on your telephone key pad and wait for

your name to be announced. First on line we have question from Mr. Girish Nair from BNP Paribas. You may go ahead please.

Girish Nair

Just two questions. Firstly how many units of power were sold from Roza and how many units were sold from Solar and how many units were traded? If you could give the break up of that and the second one would be in terms of Samalkot Power Project. We are at a loss to understand how to forecast the earnings. Is it fair to assume that this power plant will not run for the next two years or what sort of gas supply arrangements will be possible, if it can run within the next two years?

JP Chalsani

I think Girish in a short span of saying only two questions you asked all important issues of Reliance Power. After this I don't think there will be anything else you can ask me.

On Roza as we said that we generated 3,055 million units at the gross level for the entire 1,200 MW put together on this which gives us about 78.4% PLF on this. Solar in the quarter was about 12.67 million units. That is the amount of generation we did in these two places. That is what as per the first question of yours.

And whereas in case of Butibori it is going to be bought and sold under the short-term PPA, what 2-year PPA what we have with the R-Infra. We met the full capacity of 130 MW RTC equivalent whatever is the number of units for that on this.

Coming to the Samalkot Plant – just to recap our guidance as we have seen that Samalkot would need a transit strategy probably up to FY15 and then thereafter our view was that there would be change in the domestic gas availability scenario. We still continue

to be of the same view and we have not changed our views with respect to that. And the transit strategy is we still think is the only possibility the gas pooling. Otherwise I don't think there is any other transit strategy at this stage possible for this.

The question is with respect to the even if we do a gas pooling at the prices would be able to sell the power or not and if you look at that's what I was talking about the support tariffs in southern states. The AP ran 2,000 MW bid for June '13 to June '16 for 3-year period and bids are opened about a couple of weeks back when we were one of the participants from Butibori there. For the 2,000 MW bucket to be filled the weighted average tariff rate is Rs. 4.91. Therefore currently in the southern region as we said earlier the current tariffs are around Rs. 4.5 to Rs. 5 is what is going to be the tariff because that's what the power availability is in southern region. Either you transport from outside the southern region or you generate there base on imported coal or imported gas. Our logic is that if you have about Rs. 4.5 to Rs. 5 of the support tariff on this and if you get a full gas let's say even around \$10 -\$11 of this and you know the conversion of each dollar into work on whatever price based on advanced **class machines 18.49** at \$10 we should be able to do about 3.50 or 3.75 is a variable cost on this and the balance is depending upon what rate Rs. 4.5 or Rs. 5 so you will make Re. 0.75 to Re. 1 as the fixed cost. But the PLF of this nature our assumptions is would be around 55% to 60%. We would be able to generate only around 55% to 60%. So within the transit period this is 50 – 55 – 60, it is the range of PLF at this tariff at the pooled which will enable you to recover your variable cost and then contribute towards your fixed cost to the extent of your debt service completely plus may be some return on equity but as

you said last time that all our structuring of loans we did in such a manner that we can do the debt servicing post FY15, not before that. There was some reluctance failure from some government quarters with respect to the pooling of gas. Our discussion is on and that's now reduced on this and then they want to work towards gas pooling now based on the coal pooling whatever is done. Of course the coal pooling is much more easier because the base is large and you are putting some imported coal whereas in the gas it is the other way round. The basic itself is shrinking but still we think that it is the only way because there is a huge amount of shortage of power in these states. Therefore we continue to be of the same view that the gas pooling would happen as the transition strategy and the domestic gas scenario would get changed post FY15, not in FY15 but post FY15. This is what we believe on that.

Girish Nair Just a clarification, in Butibori how much did you say were the units that you sold, traded rather?

JP Chalsani Units is 134 MW.

Girish Nair At what PLF, I mean if you have to convert that?

JP Chalsani 85% PLF is what is our PPA.

Moderator Thank you Mr. Girish. Next in line we have Mr. Amit from Emkay Global. You may go ahead please.

Amit Golchha Few things. First on the Samalkot as a follow up question. You said that you didn't do the debt servicing before FY15 also and post expansion only you had that option. Just wanted to check with you irrespective of your debt servicing starting before FY15 or

after FY15 would you be recognizing the interest cost on that once you commission this project.

JP Chalsani

There are different ways. As you know that the number of power producers are actually working towards changing the accounting standards for the gas based plants. I am sure that you are aware so you are asking this question. Number of people who already built the plants are looking at that but any way we have staggered the construction on this. We would have the construction continuing even FY14 on this and we will take an appropriate call at that point of time whether you need to capitalize or you need not capitalize and how the accounting standards are going to change for the gas based plants. There are a lot of discussions happening on that. The Minister of Corporate Affairs is looking at that aspect of it and banks are looking at that aspect of it what will happen. As far as the loan repayment is concerned we have the coverant very clearly that we don't need to pay till FY15 that's what they have agreed with us because that is the case for coal based project they are willing to wait so why not for gas based projects. However, we have committed to them that before that we are able to generate and sell power then obviously we will start paying the debt service and it can't be that we will sell but still we will not pay them. But if we are not able to generate power and sell power then we don't need to pay any debt service till FY15.

Amit Golchha

Is it post-FY15 you will have to pay?

JP Chalsani

Yeah including FY15 we don't need to pay.

Amit Golchha And in case of Tilaiya last time you mentioned that the State Government is working on Section-4 Notification and more or less informally the agreement with the locals there has been reached.

JP Chalsani But Section-4 we don't need an agreement. What we need with the local people is R&R and R&R is informally the agreement has reached to everybody. Now we are asking the State Government to formally approve the R&R scheme and once they approve then obviously they also need to take other procurers into confidence for approving the land in R&R cost. As you know that land R&R cost is change in tariff available under the bidding talk terms because while doing the bidding that everybody was told to take ex-amount of estimate towards the land and R&R so there are now in the process of discussing among the procurers with respect to that because Jharkhand is the one which wants to suspended this money because being the fourth state there. Then obviously everyone has to agree to that, the R&R cost estimate so that's happening independent of the Section-4. Whereas the Section-4 notification is concerned it is now what we expected to happen in this quarter. In the last quarter it still has not happened. It is expected to happen now in the first week of September.

Amit Golchha And how much is the change in tariff which you foresee because of the R&R change?

JP Chalsani In that way there is a system in the PPA which depends I think 480 crores is what they asked us to take towards the land in R&R. 480 cores is what in the bid of even they said everybody should take towards the land R&R. Whatever is beyond the 480 crores is what they will give a tariff adjustment. So ultimately once they finalize together saying that this is what is R&R and we want to do and we

will have crystallized figure of this is what is going to cost for the R&R. What I am trying to say is we are insulated from the risk of that.

Amit Golchha I just wanted to understand would it be a significant number in terms of tariff increase?

JP Chalsani It won't be. Obviously it can't be. You know land R&R can never be a very significant number and also when you are talking about tariff of 177 which looks something abnormal in the current circumstances so we don't see as an issue.

Amit Golchha It is only a formality which is.

JP Chalsani Yes. When you talk about the 130 of Sasan 177 of the Tilaiya numbers on this and today with the current you are seeing in the bids what they are getting for everything new megawatt what they want to buy I don't think this is an issue. And also I said that this is not what we are trying to incur that cost. R&R is the plan which is the State Government finalizes. Like they will compare with what NTPC is doing for the coal mines and what Coal India is doing for the coal mines there.

Amit Golchha In case of Chhatrasal after the GoM go-ahead we believe that cabinet was to clear it. So is it the matter with FAC now or is it with the cabinet?

JP Chalsani Our understanding obviously that we are not privy to the papers there. Our understanding is that whenever you have a GoM in case any of the members of the GoM wants this to be ratified to the cabinet then he needs to go otherwise he doesn't need to go. But even if it goes anyway it gets cleared but our current information is

that it is not required. But basically what I was told FAC, Forest Advisory Committee, which is supposed to give the final clearance to this are getting reconstituted which got reconstituted recently and that's a new committee what will look at the proposal and recommend it to the Minister of Environment & Forest to clear.

Amit Golchha

Will the FAC take an independent view of the clearance or?

JP Chalsani

No it was recommended earlier no? Earlier the committee formed if you remember by the Minister of Environment & Forest before it went to the GoM. First time it went to the GoM they said that we want to create an expert committee which will visit these places physically and come back and give a recommendation. That committee came back and gave a recommendation saying that we can give the clearance provided they do ABCD. There are some specific provisions in that. So that is the paper put up by the MOEF to the GoM and GoM has accepted that saying it is okay. Let's based on the recommendations what you put in is clear that let's go ahead and do this. Then obviously I don't see any reason for them to say no we don't agree. It is not something which came from GoM. This was a proposal put up by MOEF to the GoM saying that this forest can be cleared based on these principles. So they need to ensure that there is no link between the coal mine and reservoir areas and few of the other conditions they want some studies to be done. So as long as you undertake to do that then there is no issue because this is the recommendation of the Minister of Environment & Forest which got approved by the GoM. If it is the other way round then we know what would have been true but no.

Amit Golchha

And last in case of Indonesian mines thought to be sort of entering into an advanced stage where the production will start from few months from now so is it possible to give overall view as to what all offtake arrangements or target customer countries you are looking at? What can be the use of this coal which is slightly inferior coal having high mixture? So what all can you expect in terms of the realizations from this coal?

JP Chalsani

Inferior or superior it depends. If my boiler is designed to use that so that is an extremely superior coal for me because the cost per Kcal basis is more optimal on this and if you ask some of the utilities who do not want to take any risk on this they will say it is inferior coal I want to blend only 6,000 – 5,000 so we don't look at from that point of view on this and depending upon the heat value every coal has its own value. This coal can be directly burnt in the boiler and it can be burnt by blending it with different types of coal. There are the two ways which you can actually use this coal to plants. If you are directly burning the coal obviously you need to, 100% you are burning based on this then you need to design your boilers for that like Krishnapatnam and other things for plan to decide on this. We have used this coal in Roza and other places at different points of time where blending it with domestic coal. That is not an issue whether it can be used or not. It can definitely be used. But the question is the market. And as rightly said one market is the largest in India and the other largest market is China. So these are the two large markets which we are looking at on this and we have done quite a few work in both the places. The possibility is that you can sell through traders where they buy different types of coal blend and sell and you can have long-term contracts with the utilities directly on this where they buy the high

CV coal and low CV coal and blend at their end on this. All practices are available in India as well as for example like in our case like Roza we get domestic coal, we get imported coal, we blend ourselves and we use that. So we are targeting both the large trading companies and the utilities directly both in China and in India. As we move forward in the next couple of months we should have as initial at least part quantity offtake agreement position matching with initial production on this. And as far as the development is concerned the land require for the first 4 – 5 years of operations for this is almost complete. We have already got about 300 acres of land in our possession on this and we have completed the commercial process for the MDOs and your coal handling system, your jetty and your parking and everything. So we are in quite an advanced stage to go ahead with everything but as I said that we will ensure that offtake arrangements are in position. We will ensure that the financing is in position and then we will go ahead and launch.

Amit Golchha

Sir a few follow up on this. This Indonesian coal which is there how much could be the blending in domestic coal based boilers currently in India?

JP Chalsani

If you ask a person called Mr. Krishna Reddy who is President of our Operations he will say you can go as high as 50:50. And if you go and ask an Operations, Director of the largest utilities in this country he will say first of all you can never use this coal. And even the best coal in the world which is that 5,500 – 6,000 kcal coal they will say they can't blend more than 85 to 15, 85 domestic and 15 imported coal. It all depends upon how your operations team is confident about their equipment and how they will be able

to operate. And we have gone literally in Roza. We have gone actually upto 55:45 and we are willing to go even upto 50:50 level. We operated comfortably and our team is fully confident that we will be able to operate on this. So answer to this question depends upon whom you are asking. But we have proved ourselves that in Roza we went right up to 55:45 and our team is confident that we can go even upto 50:50 levels.

Amit Golchha

Was there any impact on heat rate and auxillary consumption due to this?

JP Chalsani

No at the end of the day the boiler will have operating limits with respect to the moisture content and the calorific value. As long as they are looking certain parameters and you will not have any impact on the heat and other things as long as it is within the parameters, the overall blended coal CV and the blended coal moisture content. If the boiler is designed for a range of this and you need to be within that limit. And also at the end of the day like when you do at Roza it obviously you look at any of the coal is, firstly cost per kcal and secondly cost per kilo watt conversion.

Moderator

Thank you Mr. Amit. Next in line we have Mr. Girish Nair from BNP Paribas. You may go ahead please.

Girish Nair

Sir one follow-up question on Samalkot. What would be the CAPEX including the IDC by FY15 for Samalkot?

JP Chalsani

No this project completion is estimated to be the total project cost of around 10,000 crores on completion.

Girish Nair

That's in FY15.

- JP Chalsani** Yes on completion that's what I said.
- Girish Nair** And secondly the grade of imported coal used at Roza? And how much of it was used? What is the quantum used this quarter?
- JP Chalsani** This quarter we ran at 51:49 ratio of the domestic linkage coal versus the commercial coal. In the commercial coal of 49%, 39% was imported coal and about 10% was the domestic market coal.
- Girish Nair** And is there any weighted average calorific value of the 49% that you used in commercial coal.
- JP Chalsani** Weighted average for this whole coal comes to is around 3,800 kcal.
- Moderator** Thank you sir. Next we have a follow up question from Mr. Amit from Emkay Global. You may go ahead please.
- Amit Golchha** Sir I had a question on Indonesian mines. You said that you are looking to tie up the initial financing on this. So what is the CAPEX you estimate in the mines apart from the railway line CAPEX which is there.
- JP Chalsani** Railway line CAPEX is later. Right now we are doing everything to the barge system only and right now what we are doing obviously there won't be any grade CAPEX except for providing the infrastructure facilities.
- Amit Golchha** How much that number could be any ballpark figure would you have?
- JP Chalsani** Over a period of time because ultimately we will do an optimization of that every single equipment will ask MDO to bring

it. We will actually procure some equipment and give it. So that's what we have the bids from MDO of various options. One is 100% equipment they bring what is the cost per ton they will charge us and some equipment we will give them and we will charge on this which we feel buy versus hire concept here. By buy means we buy and give it to him or hire means they are hiring the services is what we will ultimately decide. With all this put together we should expect anywhere between \$150 – \$200 million total financing.

Amit Golchha If you give equipments to MDO.

JP Chalsani That will get financed completely by the offtake agreements of that coal mine.

Amit Golchha And since you have already got the MDO bids in place would it be possible to give an idea of the cost or the bids which MDOs have.

JP Chalsani No not at this stage.

Amit Golchha Any color on the realizations which you can expect from this mine considering the current coal prices?

JP Chalsani Amit you know coal how it is changing. Once we start producing that's the right time depending on the offtake contract how much we will make money. So for this quarter it is a little premature to talk about that.

Amit Golchha On Krishnapatnam you said that force majeure is what you are arguing?

JP Chalsani If you read the PPA force majeure clause another the PPA there are two possible ways to say that this is a force majeure. One is the

introduction of the force majeure is an inclusive clause. It says that any event beyond the control of the developer is the force majeure including the following. Those are not the exhaustive list but more precisely when you come to the force majeure exclusions clause in the same PPA it says that the following events are excluded for the force majeure unless they are caused by the force majeure. There is a double negative there. One has to read very carefully. It says that the following events are not covered as a force majeure unless they are caused by force majeure. Everybody reads the exclusion. The exclusion says that fuel cost increase is an exclusion. Therefore if you read in continuation of both on this there is a fuel cost increase is not a force majeure event unless it is caused by a force majeure. There is a double negative there. So therefore the simple straight forward interpretation is that the normal fuel cost increase is not a force majeure. Like commercially the prices have gone up is a force majeure but the price has changed because of a force majeure event which is like Government of Indonesian regulations is an post force majeure which we believe and which we have a strong legal opinion and it is a simple, straight forward interpretation not even interpretation what is written there a reading of this. And in fact if you see the judgment of the single Judge of the Delhi High Court who actually dismissed our petition, he himself said that yes I agree that by reading of the PPA with the double digit negative it gives that meaning but, however, I think the intention of the parties is that increase in fuel cost and has a force majeure. He has gone into the intent of it. But the simple law is that when your agreement is clear you are not supposed to go into the intent. You are supposed to go into the intent when the contract is not clear then you get into what was the intent of writing this. Once you write that saying that the fuel cost increase by the force majeure is a

force majeure, second I said you cannot say that no but I don't think intent is decided. That is what we challenged in the Division Bench on this.

And the second point is that if the dispute is a post measure event and that dispute dissolution doesn't fall under CERC. So if you see the CERC power jurisdiction under Section 79 of the Electricity Act on this it says that they can only adjudicate for ABCD above it says. It is 86F on this. Our ABCD and all ABCD are related to the tariff. Just to show you the difference if you go to Section 79 of CERC and 86 is the CERC. If you see the FERC section of 86 where there is no such qualification any dispute between the generator and the licensee the CERC can adjudicate. That is what happened in the case of GUVNL versus ESSAR in Supreme Court on this whereas in CERC the Act itself write differently. They can only adjudicate PAT related issues. Therefore our argument was this can't go to CERC let's go to the arbitration only which is what again the Single Bench Judge in our opinion heard on this because he used if the FERC has the power then similar power should be given to CERC but in that case why should the Act so clearly differentiate the powers between the CERC and FERC. The language should have been as simple as that. It should have been simple and straightforward. If you see 79 and 86 there is a very clear difference between the two. So therefore our argument has been that this is not the dispute to be resolved by CERC let's go to arbitration that is the reason we went and filed an arbitration petition. And we filed the section nine notifications. Beyond that what will happen we will wait and watch because it is being sub-judicial. I don't explain our stand.

Amit Golchha Just wanted to understand the rational behind. You are not putting up power plant based on the quality of coal which you have in Indonesia in India since considering that the tariff reasonably are in the higher range which you also mentioned. If that is the case you already have more than Krishnapatnam need and that can sustain a more capacity even if the Krishnapatnam has to come. What is the logic behind not putting a power plant which will ensure 25 years revenue stream for this Indonesian mine which is there?

JP Chalsani No we can always put a power plant provided we have a 25 at PPA which is willing to support the coal price of what we can get through organized sales. We are not against it but today we don't have a PPA, we don't have a power plant where we have a PPA where it talks about that whatever be the International price we will have a pass through for the coal price. Therefore there is no question of today any of the our projects supporting Indonesian coal mine offtake so the international coal mine business as we said earlier also is completely an independent business and even if this coal mine supply to any of our power projects they should be able to make the same amount of revenue like what they sell it to any other party. So our SPVs would be one of the customers to them and we would prefer our SPVs getting coal from these mines because we have an issued off take and everything from the time line. But not at subsidised rates.

Amit Golchha Then this logic wouldn't apply in case when you were putting up the Krishnapatnam plant and when you bid for that plant and then you got the coal mine.

JP Chalsani When we bid for this project for your information, we didn't have this coal mine. We had a contract where people were willing to give us the coal for long-term basis at a fixed price at price .

Moderator Thank you Mr. Amit. Next question comes from Mr. Ashish Shah from IDFC Securities. You may go ahead please.

Ashish Shah Sir on your Roza plant just wanted to check what is the landed cost of imported coal?

JP Chalsani It keeps varying from a lot to lot. What we normally do is we do a bidding based on the landed price for 1,000 k cal. That's the way. So therefore we ask people to bid on any type of coal whether it is 5,000 k. cal or 6,000 kcal or 4,000 kcal. We ultimately convert it on the base on what is the price for 3,000 kcal on this. That depends on and keeps varying from lot to lot because we keep buying it on a regular basis. So it is difficult to say. It actually tracks the index price with a lag. Normally there is a lag between the index price of Indonesia and this price by about 30 days because the index gives the previous month only and also what we do is that we actually bid out this coal on landed chosen **station 44.50** we don't take any risk in between. They have to get to coal, they are to do a custom clearance, they have to transport locally from the port to the power plant and we measure the quality of coal at our power plant. And for the quality what we receive there is what we pay them. Coal is extremely dangerous thing and you are actually specifying something, paying for something and you are getting something different. In our case we would allow only those people who are willing to bid that they will supply the coal at our power plant and the quality of coal is set at our power plant and we will pay based on the quality of the coal what we received at the

plant. The prices you can take it at practically the same price as what is the Indonesian **indexation** price.

Ashish Shah

In that case if you could just give me some indication on what could be the inland transportation from let's say to the nearest port. Just for estimation basis it is convenient to have some kind of an estimate for the inland transportation of the coal.

JP Chalsani

Obviously how much is he taking for inland transportation how would I know? What we normally do is we go and ask the UPPCL while you are approving the coal from me you please based on your experience because you are also buying power from various other utilities including NTPC and others and you are giving other than buying imported coal. Even NTPC is buying the imported coal and charging. Based on various cyclicity of buying, based on the benchmark of that coal price you give me what is the ceiling price accrued and we will go and procure within the ceiling price without your approval. If I am crossing the ceiling price what you have given me I will come back to you before I place the order. So actually UPPCL is what tells us saying that based on my the way we are procuring power from in normally we look at NTPC because that's the public sector undertaking and various things. And they approve in advance saying that this is the quality you can go and procure for this year and for this quarter this is the ceiling price what you get on this prices. Basically you need to understand is that you are buying on behalf of the procurer of power. He is paying for it and its up to him so he needs to give us the price and subsequently we go back and produce to him the process what we follow as the post facto and as long as within the ceiling price of this and till now at least we didn't face any problem with UPPCL.

Obviously the price of coal which landed at Roza I have seen competitive compared to what they are buying from the alternate and what they are paying as imported alternate for utilities. That's how the process is. How much that fellow is charging me for the transportation, how much he is charging me for the risk because he is actually taking the risk of supplying me at my power plant, how much he is charging for the risk for the quality at my power plant and rather actually selling on as required basis I will not be able to comment. We don't want to take those risks on this. And I will pay for something and I am getting something different tomorrow I will have to explain to the utility we don't do that.

Ashish Shah

Then very simplistically, if you can give me the cost for Q1? What was your imported coal cost?

JP Chalsani

I won't be able to give you the Q1 because the coal which has come in Q1 is not used in Q1 itself which one is going varies differently. And I can only tell you that Quarter 1 the overall tariff for Roza has seen about Rs. 5 plus on this the variable cost for that would be about 3.40. Then I gave you the mix of 51:49 with simple excel sheet calculations for you and we have been quiet transparent in that and obviously I don't have the number at this stage for me to straight forward because it is not the right for this quarter I can never give you on imported coal because different lots keep coming in and which lot went when is a continuous process so you don't have a date-line-wise coal pricing on this.

Ashish Shah

Sir now in Butibori just in case if there is some delay in signing the FSA then what is the plan? I mean how do we plan to generate from the plant?

JP Chalsani You have to get the coal from the domestic market and imported market.

Ashish Shah But then is the whole logistics and the process of getting imported coal in Butibori is that sort of feasible.

JP Chalsani Everything you run the business based on how much money you can make. Obviously in Butibori the tariff what I can sell is good enough for me like today my tariff as I said is for the Reliance infra is Rs. 5 and if it gives me good returns then obviously we will go and import the coal and buy from the market and sell it. And the day we think it is not I am answering your question in case FSA is not there. We don't have the compulsion like few others who have a PPA already signed up and there is an obligation for him to supply power at low rates and they don't have a FSA. We are not in that situation there. We have a PPA for 134 MW, we have a good rate of Rs. 5 hopefully we will make money there on the domestic on this because that power alternatively till you get that you have an option to PPA provides for up to 12 months. You can actually go and procure it from market and supply to them and we will see what mix as I said that without operating the plant we still made about 18 crores of profit in Butibori this year and which is 0.5 a unit then you can look at that for the full unit it is 36 crores and for 6 MW it is 72 crores. It is more or less in the similar ranges for Roza. Therefore we will always try to see that how do we actually optimize and keep increasing your profit.

But the question of timing with respect to FSA could always be there but that is the reality what we all are seeing. Even in case of Roza you have seen. One of the reasons that we had a lower sale of in case of Quarter 1 is we had lesser domestic coal but sufficient

imported coal to the blend because that's the reason because the Unit 3 and Unit 4 FSA took some time and we were in fact though we were the first to go sign the FSA without waiting for change of terms and conditions all that we were still went ahead and signed. So in that uncertainty of the whole thing and it took some heat of the quantity of the coal which is being supplied to us from the linkage and that still keep happening. For Roza we don't know but though we had some impact in Quarter 1. In Bitubury we are hopeful that as we move forward we will make on that. And also my view is that once this pooling concept is coming into picture may be it might take sometime for them to establish the whole pooling process let's say 5 to 6 months or whatever is serviced. And once that happen the pooling mechanism then obviously it is much simpler everybody will get coal. It becomes little simpler so then the plants like Butibori advantage is there and obviously you don't need to import coal. You will get most of your requirements from this and here we don't have a long transportation also because the WCL coal mines which is close to the power plant. Obviously our local transportation cost is lower and at Butibori lower the cost of coal better profitability for us unlike in Roza.

Ashish Shah

Sir just a related thing on what you just said on the pooling of imported coal but they are talking of subsidizing only to the extent of 25% of the cost.

JP Chalsani

There is nobody subsidizing in the pooling of coal. If my understanding is right obviously I don't claim that I fully understand what they are trying to do. At least the knowledge what we have got through association of power producers is that if the requirement let us say I am just taking the numbers but don't call

me to the numbers it's an example if the power industry needs 15 million tonnes of coal and they are able to supply wholly say 310-million tonnes or 320 million tonnes of coal that 30 MT or 40 MT is what they will import whatever the price it comes to and that will be pooled with the 310, 320 million tonnes of domestic coal price and they will arrive at revised price for the entire 350 million tonnes. So therefore there is nothing like they are subsidizing anybody. They are recovering the full cost. So Coal India is not subsidizing at all.

Ashish Shah

Sir actually I was more referring to some news articles which

JP Chalsani

That's right. But the process that is going to work is the same. Only thing is some utility may come and say I am cost subsidizing because today if he has got full quantity coming from the FSA then he is paying only the domestic coal price and tomorrow he will pay the pool price. He might say that I have actually got subsidy but at the same time you need to understand is everything utility which is getting full quantity with the previous FSA has some new plants which will have an impact if he doesn't agree to this. Somewhere he loses somewhere he gains so for all it is a good system for sector. In my opinion price pooling is a very good concept.

Ashish Shah

Sir basically you expect the imported coal cost to be spread out over the entire volume?

JP Chalsani

Yeah that's what at least when we approached through association of power producer we have been explained. In fact even my meeting with the Sectary of coal last week also said the same.

- Moderator** Thank you Mr. Ashish. Next question comes from the Shirishal from B&K Securities. You may go ahead.
- Shirishal** Could you help us understand the off take for the balance on 600 minus 134 MW because the group captive players have we tied up fully because what we have understood is that we don't have the full tie up of 300 MW of captive industrial users?
- JP Chalsani** Unit I is IPP where we have 50% of the capacity tied up till March 14Th reliance infra. The balance is what we will wait and see what is the opportunity, which are coming up on this on short-term basis or long-term basis. And the second grid will come in November and we need to wait and see that one opportunity is continue as a group captive power plant and we are 51% and tie up with various industry customers which is what we are in the process now and with whatever latest modifications the Maharashtra are brought in terms of the group captive consumer price it has become more conducive now compared to earlier. Now they are giving the back up power to the extent of the normal outage at the power plant. That contour was not there earlier so we need to pay the penal rates only in case it crosses the percentage of the plant outage. Also various other benefits what some where you were not getting earlier in the CPP now that has got stored so situation is much better now compared to what it was earlier. And second is people of our plant are now ready so the response of the industrial customers is different when I compare to what it was few months back breaking even when the plant come because they are already drawing the power. What we saw in the last one month there is a big difference in the industrial consumers. We actually collected a few last customers rather than getting too many customers on this

issue and right now there is a dedicated sales team which is looking at this aspect of it. And hopefully in the next 30 to 60 days time before the second unit comes we should be able to tie up.

But please understand that the ultimate for the worst case scenario if we don't want to get into this sort of a sale of on the distributive basis only, you can always convert it into an IPP, the only difference today is to sell to IPP to industrial customers you can still do it. He will pay the cost as surcharge. In the CPP customer you don't pay the cost as surcharge but in CPP you have coal cost is 30% higher compared to the IPP, there is plus or minus. CPP which is the best option which gives us the maximum entire revenue for this project this unit and as accordingly as you move forward we will decide. Right now we are in the middle of talking to various Industrial customers based on because the plant is now almost ready they are interested.

Second thing is station developments in Maharashtra with respect to the support for the CPP customers.

Shirishal But sir this is supposed to be a bid plan that you won from the MIDC?

JP Chalsani Absolutely.

Shirishal So is it not compulsory for you to operate it as a GCP?

JP Chalsani We will tell them that you show me the customers and I am willing to supply at the rate what I said that 20 ps, 25 ps or whatever reduction compared to tariff of Maharashtra. We are not backing out from that. I am only saying in case it becomes extremely

tedious to go and tie this customer. Otherwise that would still give you a very high net back.

Shirishal Yes sir because the net back will be phenomenal if you actually give 25% discount to the.

JP Chalsani Absolutely. That is the reason we are working on that. That is our first option. And also as I said that interest now is different compared to what it was earlier because the plant is closed.

Shirishal And sir do you think that even for short-term bids you will be able to sign the FSA because that seems very difficult?

JP Chalsani I spoke to the Minister of Coal which have agreed also for power and they wrote and to my understand that is what they told me is that if there is a competitive bidding process defined by the Ministry of Power under the tariff policy that you can have a short-term bid, have a medium-term bid, you can have a long-term bid, we realize that how can I say that I will go and do a short-term bid or a medium-term bid I will not be able to give you coal. It is not proper. You are deciding and saying that you are the free markets you have and the distribution company has the right to procure power by running the bid on all these three bases so if you have actually participated in the bidding process and won a contract from a distribution treaty, how can you say that I will not give you coal. So that they realized and now they have agreed, any competitive bidding defined under the tariff policy short-term and medium-term and the long-term would become eligible for this and any bidding done to a trading means trading ultimately having back to back contract with distribution company and my discussion with them is they are also looking at the possibility of that giving a two

year window for everybody to get the PPF because there is scarcity of case over here. But they are all taking time. They are struggling with the first set of FSA. Every Board meeting of Coal India more than the coal customers and the Coal India employees we all look forward in the power sector. So what will happen in the Coal India meeting.

Moderator Thank you sir. Next in line we have the question from Mr. Vivek Sharma from ICICI Securities. You may go ahead please.

Vivek Sharma Sir there were reports in the month of July that the operation at the Roza plants are affected. They were some issues with UP SEB payments and all that. So has that issue been resolved?

JP Chalsani In this country when you are actually operating a power plant and selling to the utilities we will continue to have issues with respect to the receivables management. Roza to tell you this financial year till now including for the month of July what we supplied we have billed them for 1,500 crores and out of that 250 crores latest bill is due on 7th of September. 1,250 crores has become due and they paid 1,300 crores. When we started liquidating some of the areas which were there as on 31st March. And I think where only people who actually involve Escrow and operating Escrow. Even as we speak that Escrow is invoked for the Phase I and then we are getting money at the end of every day. And now the Escrow has not increased to 350 crores and they have identified the structure, they have identified the bank and then we are probably we are starting as earlier as next Monday or Tuesday the Escrow remains for the full phase, 350 crores. So once we have the 350 crores Escrow on a monthly basis and then we invoke that and we actually will keep getting our money so therefore we will do every

possible way to keep collecting our money. We will invoke. We will encash and see and we will invoke as Escrow account, we will threaten them, we will actually stop the plant for few days, we will do everything because our aim is to ensure that our recovery outstandings will never reach alarming levels and thereafter once you reach a alarming level then you become captive to that. Till that stage you are fine but once you reach the outstanding levels to a particular level and it becomes a big amount on this then you would become completely captive to them. Then you have levy. So therefore we would never allow that level to reach. That's why we will keep doing and this is the practice and you might read more against at some point of time saying that once again because of our threatened or shut down part of the unit service. This is probably we will keep doing. Our job is to ensure that we recover our money.

Vivek Sharma But sir are all the four units operational now?

JP Chalsani Three units are operating. First unit is annual overrun which should be expected to be commissioned which should be ready by 20th or so.

Vivek Sharma Second question is regarding your power and fuel expenses this quarter? Is that the number which you have given in the press release? Does it include the power traded cost for Butibori plant?

JP Chalsani Yeah.

Vivek Sharma And how much would that be just trying to arrive at the cost per unit generated for Roza plant?

JP Chalsani Cost per unit I told you already, Rs. 5 plus for the unit.

- Vivek Sharma** No cost of fuel per unit.
- JP Chalsani** Fuel is 3,343 because I think 150 is the fixed cost for Roza normally.
- Moderator** Thank you sir. Last question comes from Mr. Abhishek Puri from Deutsche Equities. You may go ahead please.
- Abhishek Puri** Just couple of questions on Roza I regarding the coal handling mechanism. The other projects within that region have not designed for imported coal off loading. Just wanted to check your coal unloading facilities out there. Do you have wagons deployed or?
- JP Chalsani** We went ahead and designed this plant for both options. We have a track hopper and we have a wagon tippler and we are building one more wagon tippler as part of Phase-2. But there are going to be two wagon tipplers, one track hopper and one wagon tippler are already operational and we are building one more wagon tippler which is under construction today as we speak.
- Abhishek Puri** Sir what will be the final project cost for the entire project?
- JP Chalsani** At approved cost by the regulator.
- Abhishek Puri** Secondly on the coal you take. Since it is hinterland location how do you get coal, from which port and do you think the port rail connectivity is an issue? Has there been delays earlier in terms of getting coal to your project?
- JP Chalsani** That is the reason as I said that when we do an imported coal when we tell them that I am buying the coal at my power plant so

obviously he has brought the coal from Indonesia, wherever it is. If he doesn't deliver it gets stuck at port he doesn't get paid. So therefore it is he who actually runs around and ensures that he gets the railway wagons and transport to the site. He incentivizes him saying that okay my contract is actually delivery at site. He sees one fact which is helping us to ensure that coal is not getting stranded. Second thing is that you need to have your own team of people who actually coordinate and track this. That you can't avoid. You need to have people who coordinate with the subsidiary of Coal India and in this case it is the ECL so then you need to also have a team which is coordinating with the railways in spite the fact that they are contact, they are supposed to do on this which is the receivables management and the coal supply and transportation management is in a real time basis you need to monitor otherwise you can't survive.

Abhishek Puri Sir port-rail connectivity is basically the headache of the supplier in that.

JP Chalsani Yes.

Abhishek Puri And who will be the suppliers for you in case if you can share the names.

JP Chalsani We do the bidding. Everybody participate. Different time different people including sometimes Adani has won the contract and somebody else wins the contract. Practically every single supplier who is supplying coal into India, the traders have won it and sometimes we have multiple contracts operating not even one. So there will be two or three people who are actually supplying the coal simultaneously. We might split and give it to two or three

people because you can then reduce the risk. That is the way to mitigate your risk.

Abhishek Puri

Sir secondly on the Sasan Coal Mine, Moher Coal Mine which is starting up in the next couple of months as you mentioned. Can that coal be used elsewhere for say Butibori project that you have?

JP Chalsani

What we have from the EGoM is we can use the surplus coal at any of the power plants of Reliance Power and the ownership subsequently defined by the Ministry of Coal that we need to have 51% ownership towards the period on this. As well we own 51% but we need to go and take a specific approval from Ministry of Coal each time for any plant. Right now we have taken a specific approval to use it at Chitrangi because then they go ahead and issue a gazette notification and some act of coal so that was completed with respect to Chitrangi. In case if we want to use it for Butibori the answer to that is yes but there is a process involved.

Abhishek Puri

Sir, have you gone ahead and applied?

JP Chalsani

Right now it is the pooling and all that if I get the coal from WCL which is nearby that may become cheaper for me rather than actually transporting the coal all the way from Moher Amlohri to Butibori.

Abhishek Puri

And thirdly if I look at few of the press reports they are quoting that our coal mining cost will be closer to 900 – 950 or so per tonne for the Sasan Coal Mine that we have.

JP Chalsani

Actually what you need to look at it is I don't know which report you are looking at. If it is part of our presentation to the Ministry of Coal and Ministry of Power in CAG it is completely different.

What we are trying to compare is that if this is the strip ratio then what is the coal cost expected, the Coal India is doing the cost comparing to similar cost. It is not that what is my cost? What we are saying is that similar minus similar strip ratio and if you take the standard operating cost of the Coal India, what will it cost?

Abhishek Puri So our costing would be how much in that case for the Sasan Coal Mines?

JP Chalsani Right now I think we gave a clear guidance excluding the royalty terms Rs. 600.

Abhishek Puri 600 without the royalties?

JP Chalsani Yes.

Abhishek Puri And we will be able to bided tariff rate we have for first two year at 58%?

JP Chalsani This is the coal cost based on the cost which is incurred for the entire 20 million tonnes. I will ask Kasturi to give you the number what it is from the model I don't remember exactly whether it includes the royalty or not so I will ask him to definitely call you and give you the number.

JP Chalsani Thank you. Thanks all of you and Kasturi and Sumit are available for any further clarifications from now on for the next 2 to 3 hours. Thanks a lot.

Moderator Thank you sir. That does conclude our conference for today. Thank you for participating on Reliance Conference Bridge. You may all disconnect now.