



## “NLC India Limited Q1 2018-19 Results Conference Call”

**August 28, 2018**



**MANAGEMENT: MR. RAKESH KUMAR – CMD (ADDL. CHARGE) &  
DIRECTOR (FINANCE), NLC INDIA LIMITED**  
**MODERATOR: MR. MOHIT KUMAR – IDFC SECURITIES**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Investor Conference Call on Q1 2018-19 Results of NLC India Limited hosted by IDFC Securities. 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 telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Mohit Kumar from IDFC Securities. Thank you and over to you, sir.

**Mohit Kumar:** Thank you. On behalf of IDFC Securities, I welcome you all to the Q1 FY’19 earnings conference call of NLC India. To discuss the results and share the performance outlook, today we have the management of NLC which will be represented by Mr. Rakesh Kumar – CMD (Addl.Charge) and Director (Finance) and Senior Management of Finance Team. I would like to hand over the call to the management for the opening remarks, post which we could have the Q&A session. Over to you, sir.

**Rakesh Kumar:** Thank you very much. I am Rakesh Kumar – Director (Finance) and CMD In-Charge of NLC India Limited. I am accompanied with my team of finance and accounts.

Just wanted to give you a brief before we start the discussions on the results: During the first quarter of this current year, our lignite production has been 36.21 lakh tonnes and gross generation has been 4,883.91 million unit (MU) and power export which is the power sold to the various beneficiaries was 4,111.89 MU. Revenue from operations is Rs.1,696.81 crore and profit after tax for the period was Rs.319.63 crore. Average power tariff has been worked out to Rs.3.80/unit. During this quarter, we have added the capacity to the tune of 200 MW in solar business domain and we have been able to sell URS Power to the extent of 288.47 MU which has fetched revenue of Rs.94.04 crore. In this quarter we have obtained category-1 trading license from CERC which will enable us to trade the power as a trader, not only for our surrendered power but also for other generating companies through bilateral trade.

Another good news is that we have got the recommendation of environmental clearance for our mining project for Talabira-II and III by EAC set up by MoEF and we are going to get the final clearance shortly.

Now, I will request you all to ask questions on the results.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Apurva Bahadur from ICICI Securities. Please go ahead.



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**Apurva Bahadur:** Sir, I have quite a few questions beginning with if you could throw some light on the fixed cost under recovery during the quarter, what was the quantum?

**Rakesh Kumar:** Fixed cost under recovery is to the tune of Rs.120 crore.

**Apurva Bahadur:** In which plants was the majority of it?

**Rakesh Kumar:** Basically, it is TS-II expansion which is in the stabilizing mode and has not achieved the normative level of operations so far. Secondly, our Rajasthan project is also although progressing year-after-year but it is still short of reaching the normative level, this has also resulted some under-recovery from there.

**Apurva Bahadur:** Sir, just TS-II expansion, by when should we expect this to be stabilized?

**Rakesh Kumar:** TS-II expansion actually one unit is totally made operational after carrying out all the rectification work and it is performing well now. Second unit is undergoing the major repair work, it is in the last stage. We can see maybe third quarter it stabilized fully.

**Apurva Bahadur:** Also, if you could throw some light on the progress of Ghatampur and TPS-I replacement?

**Rakesh Kumar:** TPS-I replacement is our NNTPS project which is very close to commissioning, in this year itself we are targeting to commission, the progress is more than 87.18% now reported up to 30<sup>th</sup> June but after that also we have taken many steps to augment the commissioning which was getting delayed because of one of the package contractors M/s. Essar Projects who was referred to NCLT, but at the same time very proactively we have taken all the sub-vendors into confidence and we have started processing for giving the balance work at risk and cost to these OEM contractors and most of them have agreed and we are going ahead with the commissioning work now. Ghatampur also the project is going on in full swing for all the three packages and during the year we have set a target of 3,500 crore of CAPEX out of the total project cost of Rs.17,237.80 crore. So, this is an ambitious target. Now the work is going on in full swing. Financial closure for the project has already been achieved.

**Moderator:** Thank you. We will take the next question from the line of Mohit Kumar from IDFC Securities. Please go ahead.

**Mohit Kumar:** First question is on the renewable portion, what is the status? I think we are supposed to install this 500 MW solar by March '18, I think there have been some delay and the tariff has been reduced. Can you please update on the same? When do we expect the entire 1,500 MW capacity whichever you are building right now to get commissioned and what is the tariff and when do you expect the entire capacity to commercialize?



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**Rakesh Kumar:** At present, out of 500 MW solar project which was scheduled to be completed by March 2018, we could complete only 100 MW before 31<sup>st</sup> March but at the same time we were very close on two more 100 MW units each which we could complete in the month of May. So out of 500 MW, 300 MW is already completed and commissioned, out of which balance 200 MW, the work is going on, there are some issues in one of the work orders, we are facing some legal problem, but however in case of another the supplies have been augmented and we are progressing well. But you are right that the tariff which was applicable for this 500 MW was Rs.4.41; however, since it has not yet been completed except 100 MW, so for the balance solar capacity of 500 MW, 400 MW we have approached TNERC, our petition is pending and we are progressing to get the relief on account of various force majeure conditions which prevailed and resulted into the delay. So we are expecting that the outcome will be received shortly. On 709 MW, we are progressing on land acquisition of various locations and the expected completion of this project is April 2019 and we are hopeful that we will be able to complete this project by that time.

**Mohit Kumar:** What is the tariff on this power project sir?

**Rakesh Kumar:** Tariff for 709 MW is Rs.3.47.

**Mohit Kumar:** What is the progress... have we started building or is just the land acquisition still to get...?

**Rakesh Kumar:** In case of any solar power project, the first activity takes the maximum time which is land acquisition and possession because it involves a lot of legal formalities of transferring the land and after getting the land and possession also, then we start the activity on the flow study with the help of TANGEDCO.

**Mohit Kumar:** Sir, why it is taking so much time to stabilize the 500 MW and do you expect the similar thing to happen in this 1000 MW which you are trying to build because the under recovery is ...?

**Rakesh Kumar:** Yes, 500 MW we faced many challenges while executing because it was first of its kind that we were going to set up outside Neyveli premises. So land acquisition process took a lot of time, there were some legal disputes. Because of the policy uncertainty on solar panel, applicability of GST what rate, whether it will be supply of panel or total work at 18%, so those uncertainties were there, some clarifications were sought from the government also, because of these reasons we could not complete the whole project on time.

**Moderator:** Thank you. We will take the next question from the line of Apurva Bahadur from ICICI Securities. Please go ahead.

**Apurva Bahadur:** Wanted to know yesterday Ministry of Power has given a directive to CERC regarding this timely ramping up of such engines of petition. Definitely it is a positive, but could you help us quantify in our case what will be the positive impact?



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**Rakesh Kumar:** Various petitions are pending with CERC and this call will be taken by CERC and we have already submitted our submissions, we will definitely respond very proactively and try to pursue to expedite the same.

**Apurva Bahadur:** Can you share as in what amount of benefit we have petitioned?

**Rakesh Kumar:** At present, I am not able to quantify the total quantum as the same was to be decided by regulator but these petitions are basically on the lignite price for the tariff at 2014-19 and we have a few appeal cases where the petitions were decided by CERC and we have gone in for this thing. Recently, we have also filed petition for the wage revision also.

**Apurva Bahadur:** So that wage revision now that will be taken up quicker?

**Rakesh Kumar:** Yes, wage revision we have already taken up.

**Apurva Bahadur:** If I am not wrong, earlier we used to actually forego a part of that lignite pricing whatever transfer price was allowed to us to ensure the power being scheduled in the merit order, has that seen a change now because like peak demand is going up and spot power prices have sort of firmed up, so now what is the quantum of revenue means are we foregoing some more revenue and what is the quantum of that if you could share?

**Rakesh Kumar:** Yes, you are right that because of the expected increase not taking place in the cost and some more cost reduction measures which we have taken and after working out the cost which has been incurred so far during this period, so we have reduced our lignite price to the extent of Rs.300 in this quarter, Rs.100 in the month of April and Rs.200 in the month of May, this has resulted into a reduction of revenue to the extent of Rs.433.13 crore but at the same time this has no impact on our bottom line because the reduction is primarily on account of reduction in cost which is a pass-through, our profit is protected for the level of operations as per regulatory guideline. So this has definitely improved our merit order rating also and this has given us an increase in trading of our power in exchange which has also seen that our surrender power is reduced.

**Apurva Bahadur:** Sir, lastly two more questions if you could help me with the profitability of the renewables business for that 100 MW which was commissioned, I suppose that capacity has stabilized, so what CUF we are witnessing there?

**Rakesh Kumar:** The profitability of solar plants is to the tune of some Rs.7-8 crore only; however, it is in the stabilization phase, connectivity is being ensured for the total 100 MW, CUF exactly we have not worked out because partly some of the units were in the process of getting connected to the whole network.

**Apurva Bahadur:** So, I think by Q2 we will have a fairer picture?



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- Rakesh Kumar:** Definitely.
- Apurva Bahadur:** Lastly, if you could help me with the one-offs in the other income if there were any?
- Rakesh Kumar:** We have earned other income of Rs.144 crore during the first quarter which is primarily on account of increase in the surcharge by Rs.35.84 crore and interest on loan to subsidiaries loan increases by Rs.21.49 crore.
- Apurva Bahadur:** This was loan given to?
- Rakesh Kumar:** These loans are given to our subsidiaries, NUPPL and NTPL, there has been one standing arrangement wherein based on the requirement they can borrow from holding company and the rate applicable to the outside bankers are applied on this loan, this is an arm's length transaction which is helping both the companies.
- Moderator:** Thank you. We will take the next question from the line of Amit Golchha from HDFC Mutual Fund. Please go ahead.
- Amit Golchha:** Sir, on this tariff reduction which you have done due to transfer price, can you explain a bit in terms of how the cost reduction has come, has it come into the numbers only in this quarter or was the cost reduction part there earlier as well and which you have now passed on to ...?
- Rakesh Kumar:** This reduction is on account of not only the cost reduction measures which have been recently undertaken but also based on the under-recovery of expenses which were attracting the interest and provision of liabilities in the past. So based on that we have firmed up and we have passed on this cost reduction to the beneficiaries.
- Amit Golchha:** My point is that this cost savings occur to the company in FY'18, is that correct?
- Rakesh Kumar:** This accumulated over the past period of many years because we were expecting the pay revision to happen for executives and non-executives, we were expecting capital expenditure on mining to happen year-by-year, we were expecting the outsourcing of the overburden removal to happen. So as per our lignite price guidelines, these provisions are built in based on the planned expenditure for the next five years before the tariff period. So as we progress and as we became aware of the very competitive scenario in power sector, we have taken many measures not only to reduce the manpower cost but also stores and spares, the postponement of capital expenditure by augmenting or rejuvenating our old machines and we have also postponed some of the avoidable expenditure which has resulted in this cost reduction over a period of time. So, as we are progressing and pay revision of executives have already been implemented and for non-executives it is yet to happen. So whatever planning we have done as it is firming up and whatever provisions we have made after reconciling and viewing, we are



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able to pass on this Rs.300 per tonnes in the first quarter. As you are aware that we have reduced our lignite price in the last year also.

**Amit Golchha:** Sir, what was the tariff in the fourth quarter of last year against this Rs.3.80 this quarter?

**Rakesh Kumar:** The tariff in the last year first quarter was Rs.4.57 as against the first quarter but this reduction is not only on account of the Rs.300 lignite price reduction but also non-applicability of clean energy cess which was applicable earlier prior to GST regime which is not applicable now and applicability of IndAS 115 has also played a role in other sectors also which has contributed to the reduction of tariff from Rs.4.57 to Rs.3.80.

**Amit Golchha:** Can you also give the tariff in the Jan to March quarter?

**Rakesh Kumar:** Just give me some time, I will come back to you on this.

**Amit Golchha:** Secondly, this other income which you explained that there is Rs.35 crore increase in surcharge. In Rs.144 crore, how much is the surcharge income in this?

**Rakesh Kumar:** The surcharge collected during the first quarter is Rs.60.36 crore.

**Amit Golchha:** If I look at your segmental in this quarter, your segmental profits have come down significantly in both the cases, lignite mining and power generation, so from Rs.350 crore last quarter and Rs.320 crore last year first quarter, power generation is only Rs.88 crore this year and lignite has come down to Rs.57 crore... PBIT I am talking about, then there is some regulatory deferral balances, so essentially what that is reflecting here?

**Rakesh Kumar:** You are right that due to the reduction in lignite production and power generation, power sales have come down by 7% and there has been reduction on account of IndAS 115 also but this has no impact on the profit, this has impact on the revenue only. But because of the reduction in lignite production and power generation and some of the under-recoveries of power plant which have gone into repairs, especially TS-II expansion Barsingsar and TS-1 expansion out as well. So we have witnessed a decline in profitability, we agree to that; however, in the time to come, since we are stabilizing these plants and annual maintenance once it is over, it is not going to impact in the future quarters. We are hopeful that we will be able to recover.

**Amit Golchha:** Sir, this Rs.120 crore of fixed cost under-recovery which was there in 1Q, can you give also the number of last year 1Q?

**Rakesh Kumar:** Last year it was around Rs.40 crore.

**Amit Golchha:** Last year full year how much was it?



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- Rakesh Kumar:** Rs.74 crore.
- Amit Golchha:** What is this net movement in deferral account balances of Rs.250 crore odd in this quarter?
- Rakesh Kumar:** This is because of the excess recovery which we have already provided in the past year and since we have passed on this benefit of lignite price reduction, therefore these liabilities are no longer required, so therefore we have reversed that liability.
- Amit Golchha:** This is accumulated liability?
- Rakesh Kumar:** Yes.
- Amit Golchha:** How much is pending to be reversed now?
- Rakesh Kumar:** That we are reconciling, still the figure is not firmed up, and there are many issues in that, we will be able to firm up shortly.
- Amit Golchha:** Can we consider this as one-off item because essentially what you mean is that your lignite price is reduced by Rs.300 per tonnes and against that some provisions which you were earlier providing for and some costs which were earlier there, both of them are not there. You have also recovered, what you had created provisions in previous years through this regulatory deferral account, so...?
- Rakesh Kumar:** Definitely, this cannot be expected in future but at the same time as we are progressing on the cost reduction measures if we are able to achieve substantial reduction in the time to come, then of course we can look forward to such reduction, but these reductions again I will inform you that this has no impact on the bottom line of the company because as we are reducing the cost, whatever cost is allowed to us, that is transparently passed on to the beneficiaries keeping in that our profitability.
- Amit Golchha:** No sir, but then if I remove this Rs.250 crore of the profit which is the reversal of previous year's provisions, then your profit falls to almost Rs.100 crore for this quarter which is a big drop versus Q1 last year, even if I add back the under recoveries then also it is a significant drop from last year?
- Rakesh Kumar:** No, please understand that there is a silver lining that in the first quarter we have not been able to recover our fixed cost to the extent of Rs.120 crore. So this we are expecting to recover as we achieve the normative level of operations in the time to come in future quarters. Number 2, because of the less production and generation in sales, definitely that has adversely impacted the turnover as well as profit. But in the time to come, I think we will be able to catch up.



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**Moderator:** Thank you. We will take the next question from the line of Kalpesh Shah, individual investor. Please go ahead.

**Kalpesh Shah:** What is the surrender power cost we expect from Q2 onwards?

**Rakesh Kumar:** It all depends on the merit order rating. As we have reduced our lignite price and the tariff is reduced to 80 paise I am sure the competitiveness of our power is very much enhanced; however, depending upon how the other players are able to respond to the competitive scenario and what is the position of our tariff amongst the other power generating companies through merit order rating, we can get to know the power surrender; however at this point of time, depending upon these factors we will not be able to assess the future quantum of power surrender but we are very much keenly watching the market movements and responding to the competitive situation based on our internal strategy.

**Kalpesh Shah:** You produced lignite and power generation both are lag in the first quarter sir what is the reason?

**Rakesh Kumar:** Yes, the first quarter generally because we try to stretch in the last quarter of the financial year to meet the targets. Generally, the first quarter is on a slightly low profile as you must have seen in the past year also. Number 2, because of the annual shutdown taking place for TS-I expansion, and TS-II expansion also, some repair work is going on for the unit-II, this has resulted into reduction in the power generation and sales. Because lignite production is dependent on the power demand and power generating capacity, therefore lignite production has also gone down accordingly. But in the time to come, as these reasons may not be applicable and we will be able to overcome, as the shutdown is already over for TS-I expansion and TS-II expansion, one unit is stabilized and second unit we are working on, we are expecting better results.

**Kalpesh Shah:** But that second unit will start in month of October or November somewhere?

**Rakesh Kumar:** TS-II expansion, yes, in the third quarter we will see better results.

**Kalpesh Shah:** Right now, what is the PLF there sir?

**Rakesh Kumar:** Availability is more than 90% and definitely in the time to come we can see better availability from the present level.

**Kalpesh Shah:** Any revision of power tariff rates will change in the second half or maybe later on this year?

**Rakesh Kumar:** Ultimately, the power rate is comprising of energy charge, which is mainly based on the lignite price and fixed charges which will be decided based on our capital cost by CERC. So, fixed charges are almost same, they may not change, energy charge is mainly the lignite price, and



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in case we are able to achieve cost reduction and depending upon our few other related factors, we will be able to decide further reduction.

**Moderator:** Thank you. We will take the next question from the line of Abhinav Bhandari from Reliance Mutual Fund. Please go ahead.

**Abhinav Bhandari:** First was sir this preponement of overhauling on the two plants. So what was the issue there and has it been resolved now?

**Rakesh Kumar:** We have identified the technical problems and we are working on that, we are hopeful that we will be able to overcome.

**Abhinav Bhandari:** In second quarter, has it been resolved or it will take more time to resolve this... how severe is the issue just to understand?

**Rakesh Kumar:** One unit is already repaired and functioning well, second unit will take some more time. Barsingsar also the repair work for both the units is already over.

**Abhinav Bhandari:** But could you help us understand sir the nature of the problem because it seems more than normal O&M kind of work, right because it has taken so long?

**Rakesh Kumar:** In case of TS-II expansion, these two units were first of its kind of CFBC boiler, the capacity of 250 MW each unit, therefore the new technology in a way because the configuration for this size of the unit was not there earlier. After BHEL constructed and started operating, we face certain problems in the refractory area, there were problems in the tubes also. Those problems were analyzed by our technical team. We attempted two, three times earlier also with the help of BHEL but we could not succeed for long because one problem was solved, another problem cropped up, but now it seems that the permanent solution of changing the refractory material by way of igniting material we have been able to overcome one of the units. Same way this specialized material which is manufactured indigenously, we have seen good results for Unit-I and we are hopeful that we will be able to overcome the problem of Unit-II also.

**Abhinav Bhandari:** The other question was sir, this net power surrender which has come down, basically so would this be a correct understanding that since your tariff has come down, you are now much better placed in the merit order and hence this surrender is coming down QoQ?

**Rakesh Kumar:** Yes, you are right that because the energy charges have been reduced in the first quarter by reduction of Rs.300 in the lignite price, we could witness better scenario. The total surrender of power during the first quarter was 773 MU as compared to 982 MU in the first quarter of last year. Because of the reduction in the lignite price, we could lower down our benchmark price also and we could sell 288 MU out of 773 MU surrendered as compared to 198 MU sold in the first quarter of last year.



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- Abhinav Bhandari:** Sir, that is quite understandable but the other point is now because of this phenomenon of our tariffs going down, is it having a structural impact on the return on equity that we overall get?
- Rakesh Kumar:** No, this reduction has no impact on the return on equity because as per the lignite price guideline issued by Ministry of Coal, we are entitled to return on regulated equity which is infused in mines on the similar pattern as we are getting in thermal power station. Of course, there are certain variations but the major pattern of the regulation is same.
- Abhinav Bhandari:** Again coming back to the earlier question, should we take this Rs.250-odd crore of deferral account balance as core or non-core basically?
- Rakesh Kumar:** It is a core business only because the liabilities were also arising out of the operations on mining only and over a period of time as the regulatory mechanism allows us to claim back this money and on a year-to-year basis we are providing the liabilities and once we get back the money, how much we have to return to EB's is again a question of reconciling as to what cost we have incurred and what cost we are entitled to claim. So based on that, this is the core business only.
- Abhinav Bhandari:** Would this number have peaked in last quarter when this liability number was almost like Rs.511-odd crore?
- Rakesh Kumar:** Rs.511 crore was on account of the CERC approved lignite price and what we were charging. So on a year-to-year basis last year as you may recall that we have kept our lignite price to Rs.2,050 per tonne up to November and from November onwards we increased it to Rs.2,150 per tonne. After reconciling and after few developments taking place, we decided to reduce the lignite price by Rs.100 in April in 2018 and another Rs.200 from 1st May 2018. So, these are all regulatory processes which are happening.
- Abhinav Bhandari:** At what juncture would you again consider reducing the lignite prices to further enhance our merit order?
- Rakesh Kumar:** We are working on this cost reduction strategy and we are also watching the price movement in the market. Depending upon the market scenario and our success to reduce the cost further, we will take a view.
- Abhinav Bhandari:** Just a couple of more things sir. If you could help me with the regulated equity numbers post Q1 for both power and mining?
- Rakesh Kumar:** The regulated equity in mines and thermal is slightly over Rs.5,000 crore, this is giving us return of 15.5% at normative level, this regulated equity is only for mines linked to thermal power stations, the equity infused in renewable is in addition to this.



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- Abhinav Bhandari:** How much would the equity be for overall plan of Solar 1200 MW?
- Rakesh Kumar:** Our equity infusion would be approximately Rs.1200 crore for 1209 MW.
- Abhinav Bhandari:** Sir, for wind?
- Rakesh Kumar:** For wind, we have not taken any loan for that project. So at present we have infused equity only. In the time to come, we may take a view to take out our excess equity there.
- Abhinav Bhandari:** Current investment would be how much sir?
- Rakesh Kumar:** Rs.323 crore.
- Abhinav Bhandari:** How much would be the receivable position as on 30<sup>th</sup> June and any progress on the sticky receivables that we had?
- Rakesh Kumar:** As on 30<sup>th</sup> June, our receivables were to the tune of Rs.3,534 crore. Although we are keeping a tab on the invoices generated and we are able to get the money after two to three months for the regular invoices, there are some contentious issues for which TANGEDCO along with two other EBs have gone to APTEL for our claim of truing up of lignite price which is to the tune of approximately more than Rs.1500 crore, that is progressing well and we are expecting that APTEL will also be able to take decision in this regard and we will be able to get.
- Moderator:** Thank you. We will take the next question from the line of Amit Golchha from HDFC Mutual Fund. Please go ahead.
- Amit Golchha:** Sir, in case of solar power, you mentioned that 100 MW is commissioned before March '18, so that is at 4.41 per unit. The balance 400 MW today what is the tariff?
- Rakesh Kumar:** Although the applicable tariff would be Rs.3.05 depending upon the decision of TNERC on that but we are contesting the petition. Already MNRE has issued the guideline for allowing a period of 60-days on account of GST. It all depends on what view TNERC takes. If they take a positive view on account of GST, then for another 200 MW we will be able to get same tariff.
- Amit Golchha:** How much is the total capital cost which you have incurred for this 300 MW commissioned or 500 MW total?
- Rakesh Kumar:** We have already incurred an expenditure of slightly over Rs.2,000 crore.
- Amit Golchha:** How much is debt and equity in this?
- Rakesh Kumar:** We have envisaged 30% equity and 70% debt.



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- Amit Golchha:** So if the tariff falls to Rs.3.05, then will we be making losses on this the balance capacity, what is our assessment of...?
- Rakesh Kumar:** It all depends on how much out of the balance is decided on Rs.3.05, that will make a difference; however, we were having some cushion, some profit maybe reduced drastically definitely but we are hopeful that we will be able to earn some marginal profit.
- Amit Golchha:** I am referring to notes to accounts Number 2, of your results this quarter; you have mentioned about four items for which you have gone to APTEL against the CERC order. So, I am trying to understand that whether these four items are we recognizing based on our assessment of these things or based on what CERC has given to us in the accounts today?
- Rakesh Kumar:** Basically, if you kindly see our accounting policy, which we changed in 2016-17 itself that the recognition of our revenue is based on the orders issued by regulatory bodies irrespective of what is our view on that or not. So, whatever has been decided by the regulatory body, we have accounted our revenue based on that only, so we have provided the liabilities wherever applicable.
- Amit Golchha:** In this context sir, when you say that your last year fourth quarter if I recognize Rs.511 crore as movement in regulatory deferral account balances, that is essentially the difference between what you are charging to your customers and what CERC has provided to you, this is the differential between these two amounts, right?
- Rakesh Kumar:** Yes.
- Amit Golchha:** So, essentially you are recognizing what is not given by CERC?
- Rakesh Kumar:** No, we are recognizing the revenue based on the CERC approved rates only; however since we have consciously not billed to that extent and we know that once we have not billed, we are not going to realize the same. So as per IndAS 114, accordingly we have provided the liability for the differential amounts.
- Amit Golchha:** This is not liability, this is asset which you have created in fourth quarter last year, in that the revenue as per you is as per CERC rates but the net movement in regulatory deferral account balances which is essentially income which you have shown in P&L which is Rs.511 crore?
- Rakesh Kumar:** This Rs.511 crore income is because of the change in law, gratuity becomes payable at the rate of Rs.20 lakhs per person for the full duration, therefore this is what we are envisaging to get as a petition as a part of the enhancement of our tariff.
- Amit Golchha:** Against that there is an expense also in the accounts in the fourth quarter?



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**Rakesh Kumar:** Yes, expenses is naturally bound to happen because as the people are retiring and based on the actuarial assessment basis we are revising the liabilities on quarter-to-quarter basis for the expense.

**Amit Golchha:** Lastly sir given this Rs.250 crore amount which you have booked in first quarter is very significant, for us to understand the accounts and the results better, we need to understand that this money is essentially nothing but what you have provided till last quarter, that is FY'18 in terms of all your liabilities which you are expecting earlier and you had provided this in your accounts, against this you are charging higher lignite price from customers assuming that you would have incurred this expense. Now what you are doing essentially is that you are reversing that amount back to P&L, assuming that this expense will not incur now, is that the correct assessment?

**Rakesh Kumar:** You are right.

**Amit Golchha:** Now sir, I want to understand for how many quarters this money can be reversed because if I adjust this money into your profits and even if I add your Rs.120 crore of under-recovery, your profits are half of last year first quarter, what you had explained in terms of fixed cost under-recovery, I am adding it back and then looking at it as a normalized number, so essentially you reported Rs.319 crore of profit this quarter, we need to adjust two things from this; one is Rs.120 crore of under-recovery and second is Rs.250 crore of reversal of expenses which you have done, so the net amount to be adjusted is Rs.130 crore from the profits minus tax, so that is somewhere about Rs.200 crore of profit and that is the adjusted profit for all under recoveries which you have done in this quarter. So we want to understand is this a normalized number or are we missing anything?

**Rakesh Kumar:** No, in addition to this, depending upon the surcharge which EBs are liable to pay to us because of the delayed payments, that surcharge is also adding to our profits. As we are giving loans to our subsidiaries, the interest earned on that account is also adding to our profit. In addition to this, there has been increase in the lignite sales in the first quarter which has fetched additional revenue to the extent of Rs.52 crore after adjusting reduction to TAQA IPP, so...

**Amit Golchha:** What was the actual availability of mine in first quarter?

**Rakesh Kumar:** Capacity utilization of mining was 48% in the first quarter. Here I would like to mention that on QoQ basis, we should not go by the availability of mines and availability of power plants because what happens that during rainy season our production may not be good, we may have the opening stock of huge quantity lying and we will be utilizing that and in some of the quarters, third or fourth we try to catch up. So fourth quarter is always very heavy as compared to other quarters, of course, we will give you the numbers.



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**Amit Golchha:** Can you explain us a bit in terms of how do you recognize mining revenues, so for example, let us say last year, you actually produce significant part of your lignite in the last quarter but the revenue recognition is it also according to your production or is it distributed across four quarters based on normalized numbers?

**Rakesh Kumar:** Finally, whatever is the total quantum of capacity utilization of mine, on that basis only we determine our profitability. As we go beyond the normative level, then we are entitled to the proportionate level of lignite price and that adds to our bottom line heavily. But at the same time if we are falling below the normative level, that proportionately hits our bottom line also heavily. So on estimated basis, we charge these prices and based on the actual numbers we finally adjust these numbers.

**Amit Golchha:** Just a follow up to this, if I look at your fourth quarter number, your lignite mining segmental results, PBIT was Rs.84 crore, same was in the first quarter last year was Rs.350 crore and in this quarter it is Rs.57 crore. So what you are saying is it is not matching with the numbers?

**Rakesh Kumar:** No, last year such type of issues we did not witness as we have witnessed this year first quarter that our normal shutdown period were any stage in the first quarter because they had become overdue and secondly we witnessed some problems in TS-II expansion and in Rajasthan also, therefore this has resulted into a reduction in the power generation and power sales also.

**Amit Golchha:** What was lignite production last year first quarter?

**Rakesh Kumar:** 37.91 lakh tonnes as against we achieved 36.21 lakh tonnes.

**Amit Golchha:** It is broadly similar sir, that is what I was trying to understand. Anyway, we will take it offline.

**Moderator:** Thank you. We will take the next question from the line of Mohit Kumar from IDFC Securities. Please go ahead.

**Mohit Kumar:** Can you give me the regulated equity for mines and power plants separately?

**Rakesh Kumar:** The regulated equity in mines is to the extent of Rs.2,900 crore approximately and in case of power plant it is Rs.2,200 crore approximately.

**Mohit Kumar:** My second question is on the subsidiary. Are we recognizing the tariff still on the provisional basis? What is the status of tariff petition right now?

**Rakesh Kumar:** CERC has already issued the order, based on that we are invoicing. However, we have filed an appeal for revising the capital cost requesting them to put into some of the disallowed capital expenditure and a few other issues.



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- Mohit Kumar:** What was the capital expenditure incurred and what is allowed at this point of time?
- Rakesh Kumar:** I will come back to you on this.
- Mohit Kumar:** Sir, on the Barsingsar-II power plant, what is the status right now – has the EPC contractor started to work?
- Rakesh Kumar:** No, on Rajasthan front, we have been trying to persuade EBs to agree for continuation of the project and in the process we have offered some reduction in the tariff also. The final decision is yet to come from their side. We are hopeful that we will be able to get the decision soon.
- Mohit Kumar:** What is the capital expenditure planned for FY'19 and breakup and how much we have incurred as of now?
- Rakesh Kumar:** FY'19 we have planned capital expenditure to the extent of approximately Rs.8,000 crore out of this Rs.8,000 crore, Rs.3,500 crore is on our UP project Ghatampur, we will give you the number shortly.
- Moderator:** Thank you. I hand over the floor back to you.
- Mohit Kumar:** Thank you for attending the call. That is it from our side.
- Rakesh Kumar:** You are welcome. I think we will be able to start the practice of such calls in future also. Although it was delayed in the past but we will catch up now and continue to address the issues if any to investors.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of IDFC Securities, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.