

NTPC
FY-2005 Annual Results
Analyst/Investor Conference Call
June 17, 2005

Moderator

Good afternoon ladies and gentlemen. I am Parimala, the moderator for this conference. Welcome to the NTPC Conference Call hosted by JM Morgan Stanley. Mr. Hozefa Topiwala of JM Morgan Stanley is your call leader today. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for international participants connected to SingTel. After that, the question and answer session will be conducted for participants in India. I would like to hand over to Mr. Hozefa Topiwala of JM Morgan Stanley. Thank you and over to Mr. Topiwala.

Hozefa Topiwala

Good afternoon. This is Hozefa here. On behalf of JM Morgan Stanley, I welcome you to NTPC's FY-2005 annual results conference call. We have with us Mr. Narasimharamulu, Director Finance; Mr. Sharma, Director Commercial; Mr. Singh, Executive Director, Coal Mining; Mr. Singhal, Executive Director Finance, and Mr. Kundu, GM Finance. Without much ado, I will hand it over to Mr. Narasimharamulu who will take us briefly through the FY-2005 annual performance and then comment on the outlook for the company. Mr. Narasimharamulu, over to you sir. Thank you.

Narasimharamulu

Thank you. The results for the year 2004-05 have been published by us on 14th, about three days back. I think all of you are fully aware of the numbers which are published and these are audited numbers for the year 2004-05, and it is in the form in which SEBI wants us to the publish. So all the details required by the SEBI regulations are available in the official results, but I would like to give some of the highlights before we start the question and answer session. The main activity of the company being power generation, the generation of the company in the 2004-05 was 158.271 billion units. This is higher by about 10.233 billion units for the previous year, that is, 2003-04, registering an increase of 6.91%. The increase is mainly due to capacity addition, that is about 5.83 billion units and higher capacity usage and better performance of the stations, which contributed about 4.4 billion units. This is about 2.97%. The plant load factor, which is the measurement for capacity utilization, is 87.51% in 2004-05 as against 84.41% in the year 2003-04. The energy sent out accordingly went up to 148 billion units, an increase of about 7%.

Now coming to the financial terms, the sale of energy accounted for during the year 2004-05 is Rs. 225.65 billion as against Rs. 188.68 billion in the year 2003-04, an increase about Rs. 36.9 billion, that is about 19.59%. As you are all aware, if the adjusted sales are taken into account, the sales for the year 2003-04 which are to be compared with the sales of 2004-05, will be Rs.202.6 billion registering an increase of about 11.37%. This is in spite of the new tariff regulations have come into being for this year and reduction in some of the elements of tariff having taken place. But in the increase in the turnover is because of

increase in the fuel cost, which is a pass through out of the existing equation. So the increase in turnover, that is top line has not necessarily been that the profit should go by same extent. The total income, however, if you see, has decreased from Rs.259.64 billion in 2003-04 to Rs.255.46 billion, mainly on account of decrease in the other income. Other income was as high as Rs.70.96 billion in the year 2003-04, which is Rs.29.8 billion in the year 2004-05, and this is because of one-time settlement that has been given effect in the year 2003-04. Now the bottom line, profit after tax for the year 2004-05 is Rs. 58.07 billion as compared to Rs. 52.60 billion for the year 2003-04, but if one-time settlement effect as usual for the last year, that is 2003-04 is taken out, the adjusted profit for the year after tax is Rs. 39.869 billion, so this the comparable figure in fact, if one-time adjustments are taken.

There have been some important things about some of these numbers. It maybe observed that the Q4 profit is Rs.22.93 billion as against 9-months profit of Rs. 35.14 billion. It is to be clarified that the in Q4, there are two or three extraordinary items, one of them is write back of the provisions for doubtful debts created last year on account of settlement reached with the customers. That amounts to about Rs.6.224 billion. We have also settled some of the issues relating to the period up to September 2001 with two of our customers which resulted in booking of one-time surcharge income of Rs.2.394 billion. If these are excluded, the profit for the Q4 will be lower than Rs.22.934 billion, that is Rs.14.316 billion, as against Q3 profit of Rs.13.655 billion. Further there have been some tariff notifications issued in the subsequent months after Q4 which was responsible for some increase in the profit on net basis.

The details regarding income and expenses for the fourth quarter as compared to the fourth quarter of last year are also given in the published results. It is to be observed that profit of Q4 of this year is higher compared to Q4 of last year. Here again, it is to be clarified that last year, there were provisions for about Rs.4.938 billion towards doubtful debts. These are more due to efficiency gains this year. There is reduction in interest and finance charges. There are some tariff notifications issued after Q4 which increased the income. It is important to mention some of the things which normally asked by the analysts and the investor. One about the coal receipts. Coal receipts were of the order of 93.95 million tonnes as against 86.82 million tonnes in the year 2003-04. The consumption was 94.9 million tonnes in the year 2004-05 as against 86.0 million tonnes in 2003-04. The coal stocks, however, dipped in 2004-05 end. In April and May 2005, the coal receipts were 17 million tonnes as against 15 million tonnes in the corresponding two months of the year 2003-04. We are importing now coal to supplement the coal receipts from domestic sources. Effort is always to see that for want of coal, generation does not suffer. As regards gas for the existing station, it is encouraging that we are supplied additional gas from other than APM sources. With this development, we have received in May 2005, 11.15 mmscmd against 9.67 mmscmd. As regards capacity which will become operational in the current year, that is 2005-06, about 1710 megawatts, there are long-term linkages already available, and we shall pursue with the coal companies for adequate supplies of coal, and we also will try to supplement the supplies from the domestic sources by imports.

These are some of the highlights I wanted to give before the question and answer session. Now the floor is open to all. Thank you.

Moderator

Thank you very much sir. At this moment, I would like to hand over the proceedings to Ameena at SingTel to conduct the Q&A for international participants. After this, we will have a Q&A sessions for participants in India. Thank you and over the Ameena.

SingTel Moderator

Thank you moderator. We will now begin the question and answer session for participants connected to the SingTel bridge. Please press "01" to ask the question. Participants connected to the SingTel bridge, please press "01" for a question. The first question is from Mr. Waghle, Citi Group Singapore. Go ahead sir.

Kedar

Thank you. Thank you very much for hosting this call. I had two questions. First could you update on the status of the gas-fired plant expansion at **Kawas** and **Gandhar**, and **Kayamkulam**, and secondly, on the status of the joint venture plans, you were planning, I think the **Ennore** joint venture, and the joint venture with the Railways and SAIL. Thanks.

Narasimharamulu

I could not get your name.

Kedar

My name is Kedar Waghle. I am from Citi Group Asset Management.

Narasimharamulu.

Thank you for your question. It is very, very important question you have put. The gas-fired station which are to be set up at **Kawas and Gandhar**, and on the other side the **Kayamkulam**, these are the three stations regarding which you want to know the status. As regards to **Kawas and Gandhar**, we have already invited the bids and the bids have been under evaluation for some time and we will be placing the orders once the things are in order. So this is the status with regards to **Kawas and Gandhar**. And **Kayamkulam**, once we finalize the gas supply agreement for which efforts are there to explore the gas supplies, the stage is now that we have not been able to tie-up gas from any source, so once we do that, it will be also taken up for implementation, but this is not an immediate project, this is to come up in the 11th plan, which begins in 2008 and ends in 2012. Now coming to the Ennore and Railways JV, I have to state that the Tamil Nadu government, that is Tamil Nadu Electricity Board and NTPC joint venture is now trying to prepare a feasibility report and once the feasibility report is prepared and the project is found to be viable, we will be taking up that particular project. The Railways JV, the Railways are to still study the evacuation of the power from this thermal station which is going to be set up at Nabhinagar. Once the evacuation facilities are firmed up, then this project feasibility will be established and thereafter it will be taken up. The Bhilai JV, that is Bhilai supply company JV between NTPC and SAIL, we have already placed an order and work will commence soon.

Kedar

Thank you. Just one clarification on the **Kawas and Gandhar** projects, the gas supply agreement, basically it is a binding agreement now, right?

Narasimharamulu

That's correct. We have received a bid from Reliance and other bidders against open tender and we have accepted the bid of Reliance and we have placed the Letter of Award and that

has been accepted by Reliance, and a group is also working on the progress of their project and on our project, and I think that is binding contract.

Kedar

Okay thank you very much.

Narasimharamulu

Thank you.

SingTel Moderator

Participants connected to the SingTel bridge, please press "01" to ask a question. Any question, please press "01." We have Mr. Waghle with a question.

Kedar

Thank you, just one more question. Are your payments from the SEBs current at this point, about six months back you had mentioned that you are getting nearly 100% of the dues in time, is that still the status?

Narasimharamulu

Yes it is, we are able to receive 100% of our billing and there is no payment problem from any of the customers.

Kedar

Okay, thank you.

Moderator

Please press "01" to ask a question. Thank you. At this moment, there are no further questions from participants at SingTel. I would like to hand over the proceedings back to Parimala.

Moderator

Thank you Ameena. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press "*1" on your touchtone enabled telephone keypad. On pressing "*1", participants will get a chance to present their questions on a first-in-line basis. To ask questions, please press"*1" now. First in line, we have Mr. Suhas from ICICI Securities.

Suhas

Hello good afternoon sir.

Narasimharamulu

Good afternoon.

Suhas

I just had a question, could be a fairly longish kind of question. The question is how much of new capacity is being planned to be commissioned in FY06 and how much is in FY07. Now which are the mines which will supply the coal to those capacity, and what is the status of the coal mine, in terms of progress, what do you anticipate?

Narasimharamulu

First let us see what is the additional capacity available in the year 2005-06. The additional capacity that is going to be available is 1710 megawatts.

Suhas

Which are the plants?

Narasimharamulu

The **Talcher** 1 unit of 500 megawatts, likely to be commercialized next month. Then **Rihand** 500 megawatts, that also is likely to be commercialized next month. Then **Rihand** second unit that will take some time, but before March 2006 it will be available. Then on best effort basis we want to commercialize 210 MW unit at Unchahar, but this is not certain, but on best-effort basis maybe this will become available. Otherwise it is 1500. For this 1500 MW, we have long-term linkages of coal, because all these are coal based stations, and these are all confirmed, and we will pursue with the coal companies for the coal supplies, and we don't anticipate any problem because the receipt from the domestic sources will be supplemented by necessary imported coal, but the generation at these stations or for these new units will not get affected.

Suhas

And in over 2006-2007, what are the commissioning?

Narasimharamulu

2006-07, I think it is year next and we have scheduled Vindychal both the units of 500 MW that means 1000. Kahalgaon expansion in full we may be achieving by March 2007, that is 1500 MW. Then at Sipat two 500 MW units will be commissioning by March 2007, it will provide 1000 MW. And we have slated before March 2007, the open cycle commissioning at Kawas and Gandhar, that is 725 MW each, with this we expect in 2006 and 2007, that is before March 2007, and capacity of 4950 to be available.

Suhas

Okay fine. And just follow up on that, initially you had a target of 2.1 million tons as your imported coal, is that quantum increased now, we are hearing of a 4 million tons figure?

Narasimharamulu

You have heard from very reliable source.

Suhas

Newspaper.

Narasimharamulu

That is true, that is in case of necessity only we will be doing it. This 2.1 is firmed up, already order on MMTC is available and supplies have also started coming. Additional 2 million tons will be if necessary.

Suhas

Okay. Which among the coal mines are really the problem areas, you know, is it Eastern coal fields or, which are probably not meeting your commissioning schedule and hence you might be forced to import?

Narasimharamulu

That actually will depend upon the capability of the respective coal companies to develop the mines and augment the capacities to see that they supply to us, but it is difficult to say that particular coal mine or particular coal company like Eastern Coal Field or Mahanadi Coal Fields are, because Mahanadi Coal Fields is a very very good company, still you know, little problem is there at Talcher, temporarily problem, so it is not the company, it is the mines, respective mines how they become themselves available to us for supplies.

Suhas

Okay. And the gas, PLF you mentioned as improved, is that because you are buying gas from, is it because of this commissioning of the Shell's LNG project?

Narasimharamulu

No, not that. The APM governed supplies being received, in addition to that PMT supplies have also started coming, which will mean price being more than what the price is. So we may be supplementing with some kind of RLNG also. So, it is a mix of APM supplies which were earlier also being available and then PMT which is available from May onwards, and then RLNG which is available from this month onwards. So in addition to that we are also exploring the supplies from GSPCL. It is a small quantum, 1.5 from GSPC and RLNG.

Suhas

Okay. One last question, what is that you have to tell us on Dabhol?

Narasimharamulu

Dabhol, we will be constrained to say till the matter gets settled. At this stage I think I will be opting not to tell much about Dabhol.

Suhas

Okay, and lastly on some of the transfer of the state owned assets to yourself, is that also a little too early to say?

Narasimharamulu

Yeah, I think it is, I mean, it is at the stage of idea only. I think once we come out with some kind of initial steps, we can be in a position to say something.

Suhas

Okay, fine. Thank you very much.

Narasimharamulu

Thank you.

Moderator

Thank you sir. Next in line Mr. Sumeet from UTI Mutual Fund.

Sumeet

Sir, good afternoon. I wanted to know what is the sales volume for the year as a whole?

Narasimharamulu

Volume in terms of rupees or...

Sumeet

Billion units?

Narasimharamulu

147.792 billion units.

Sumeet

And sir how much of this volume fetched us the incentive on generation kind of...?

Narasimharamulu

Has to be worked out because the incentive is given over the PLF, 80% PLF, so our PLF has been 87.51%, so 7.51% carried incentive.

Sumeet

Of the gas based, like, how much was the total PLF sir?

Narasimharamulu

The PLF is 65.35%.

Sumeet

And how much of the volume got you UI charges roughly?

Narasimharamulu

That, for commercial expediency I think we will not be able to say openly.

Sumeet

Sir what is the average heat rate across stations, sir?

Narasimharamulu

That also we will not be able to disclose for commercial reasons.

Sumeet

Not a problem sir. Thank you sir.

Narasimharamulu

Thank you very much.

Moderator

Thank you sir.

Hozefa Topiwala

Hozefa here, I will just take one question while the other are asking. Sir, even after adjusting for the extraordinary income that you mentioned, both Rs.620 crores and Rs.240 crores...

Narasimharamulu

Mr. Topiwala

Hozefa Topiwala

Yes sir.

Narasimharamulu

Yeah, please.

Hozefa Topiwala

If you adjust the extraordinary income that you mentioned initially in the segment PBIT numbers for fourth quarter, even after that the segment PBIT for fourth quarter is about 12.5 billion rupees compared to on an average about 10 billion rupees in the first three quarters, so can you explain why in the fourth quarter you had at least about Rs.200 crores extra profit, where did it come from? What drove that profit?

Narasimharamulu

It came from operations only.

Hozefa Topiwala

Yes sir, but if you can just, because as far as the regulated return is concerned, there have been no big changes, which part of incentive and PLF also compared to the third quarter, the PLF was not significantly higher in the fourth quarter, so what changed so dramatically to have that additional Rs.250 crores of profit in the fourth quarter?

Narasimharamulu

There have been some tariff notifications issued in respect of the stations towards additional capitalization. That additional revenue was booked in fourth quarter and subsequent to fourth quarter orders came, which have effect on the accounts for the year 2004-05, that have been accounted.

Hozefa Topiwala

Would you say that there is any one-time booking on account of that or bulk of that would be recurring income?

Narasimharamulu

It will be recurring.

Hozefa Topiwala

Thank you very much sir.

Narasimharamulu

It will be recurring in the sense, it is given as a tariff order which will have effect in the subsequent year.

Hozefa Topiwala

But there was just one element to this additional capitalization, it was between the period 2001 to 2004?

Narasimharamulu

Yeah, you are right, but...

Hozefa Topiwala

So there would be some one-time element between 2001 to 2004 and then there would be a recurring element.

Narasimharamulu

No 2004-05 has been accounted for. The prior period, that is taken for three years separately.

Hozefa Topiwala

And where would that be booked sir?

Narasimharamulu

It will be booked as part of the sales only as per accounting standards.

Hozefa Topiwala

So it is booked in FY2005?

Narasimharamulu

Yes.

Hozefa Topiwala

And how much would that number be between 2001 and 2004?

Narasimharamulu

I think it should be about three-fourth of this amount.

Topiwala

Thank you very much sir.

Moderator

Thank you sir. Next in line, we have Mr. Gautham from JP Morgan.

Gautham

Good afternoon sir.

Narasimharamulu

Good afternoon.

Gautham

I just wanted to check on this tariff notification. What is the total amount?

Narasimharamulu

That is about Rs.200 crores.

Gautham

And earlier you said about this write back of provisions and one-time surcharge income, so that Rs.600 crores is separate and Rs.240 crores is separate?

Narasimharamulu

That is correct.

Gautham

Okay. And another last question on the cash balances, what is the cash balance at the end of April 2005?

Narasimharamulu

You want to know cash balance?

Gautham

Approximate number.

Narasimharamulu

It is about Rs.9600 crores.

Gautham

Thank you.

Moderator

Thank you sir. Participants who wish to ask questions, please press “*1” now. Next in line, we have Mr. Bharat from DSP Merrill Lynch.

Bharat

Hello. If you can enlighten us on two key issues, firstly your initiatives on the captive coal mining, if you can give some more color on the kind of investments which you are likely to make in the current year and the next year; the time line you foresee for the first batch of coal to really arrive at NTPC in terms of actual production; and the kind of returns which you see from this investment over the next three to five years for example?

Narasimharamulu

It will take at least two to three years for starting the production, but as regards the extent of investment which you have to make, we will be able to say only after the feasibility report is prepared. We are not at the stage where feasibility report is ready.

Bharat

Okay, and secondly is it true that now you have almost tied up the gas supply for the **Kayamkulam** power project through GAIL through this Iran contract which they have done, and if so, what do you expect as the final delivered price at Kayamkullum?

Narasimharamulu

Bharat, we have not yet tied up with anybody including GAIL for the gas supplies to **Kayamkulam**. Once we tie up and are ready, then we can say about the price. Still we are only making efforts.

Bharat

Okay and thirdly on the current issue of coal supply problems in Orissa, could you give us the exact status in terms of how much of the capacity has been shut down and when it would restart after the renovation or whatever needs to be done there, and do you expect any loss of production due to that?

Narasimharamulu

I will hand over this to Mr. R. S. Sharma, Director Commercial. He will answer your question.

R. S. Sharma

You are asking about **Talcher**, Orissa. At present, one unit is, which is not running, this is for certain inspections and all, and already the imported coal has been received at the site, so with this inspection getting over, we will immediately start the unit. So with this nothing will be under shut down for coal actually. So we will have the unit back after the inspection. Imported coal has already started getting, received at **Talcher**.

Bharat

Okay, and how many units of NTPC currently are classified as critical, and are you planning to reach the imported coal in those units as well, and what is the status on that?

R. S. Sharma

So far as imported coal is concerned, we are using at **Talcher**, then at **Farakka**, and then at **Simhadri**. These are the three stations where we are going to use the imported coal. That is only to supplement whatever that is being...

Narasimharamulu

It shall be blended with the domestic coal and then it shall be used.

Bharat

Okay thanks a lot sir.

Narasimharamulu

Thank you.

Moderator

Thank you sir. Participants who wish to ask questions, please press “*1” now. Next in line, we have Mr. Sushanth from UBS.

Sushanth

Good afternoon. I have a couple of questions. I will start with Reliance. Is the agreement finally signed or is yet to be signed because our understanding is that Reliance is still waiting

for certain clarifications from the Ministry on the production sharing contract further, you know, gas reserve?

Narasimharamulu

No, as far as the contract between NTPC and Reliance, I can only say that there is a binding contract. Now what you are referring to is a document which is called contract document or so which is to be finally signed, but nevertheless we have a valid contract with them and the document will be signed as soon as they are through...

Sushanth

Okay. Second thing, again continuing on the coal side, next three years, because bulk of your 4000MW plus 1700MW around close to 6000MW capacity will be coming in next three years, what would be incremental pool to come, let's say by next three years, that is March 2008?

Narasimharamulu

March 2008.

Sushanth

Approximately, incremental coal requirement?

Narasimharamulu

You are telling about three years' requirement for 6000 megawatts. Mr. B. P. Singh will take your call.

B. P. Singh

With this capacity addition of another 6000 megawatts, we will be needing another 30 million tonnes of coal by that time, because the current requirement is around 100 million tonnes, so it will reach to 130 million tonnes by end of 2008.

Sushanth

Because our understanding from Coal India is that they will be producing additional, rather country's coal production will go up by around 60-65 million tons in the next three years, so that means you are looking for a 50% share theoretically on the incremental coal production.

B. P. Singh

Yes.

Sushanth

Is it feasible?

B. P. Singh

Yes, it is feasible.

Narasimharamulu

This is a mine already under development and they will be dedicated to NTPC stations, so we do not foresee any problem in getting coal.

Sushanth

The statements you gave in the press release recently that 10 million tonnes by 2007 and 50 million tonnes by 2010, is it more of like statement of intent or because you are still saying that the feasibility report is not yet ready?

Narasimharamulu

The new coal mine which we are trying to develop, regarding that you are mentioning?

Sushanth

Yes, basically I think there is a statement, press release, you talk about, you want to produce 10 million tonnes coal by 2007, rather develop 10 million tonnes coal mines and 50 million tonnes by 2010?

Narasimharamulu

I think it is not our statement.

Sushanth

Because I am just reading from your site, so I was surprised with the numbers.

Narasimharamulu

No, it is not our statement.

Sushanth

Okay, just one another last thing, I think **Kayamkulam** our understanding is that Petronet LNG probably would emerge as the supplier and also it is increasingly seen that there is, market-driven gas pricing is an eventuality, and you yourself has started taking gas from RLNG or GS PCL, then why you are not going for tying up formally with people like Petronet LNG or Shell or other people?

Narasimharamulu

No, it is something which is not disclosable at this stage, but while the efforts are there to tie a source which is reliable and at the same time the price charged by them is affordable. These are the two things, which are kept in mind and the source will be made known only after we have some kind of firm tie up.

Sushanth

Sir last thing is that, this National tariff policy, I think, Minister will take to you about in a weeks time, what is your take on that, and do you feel that.., what kind of time line you are looking at for national tariff policy?

Narasimharamulu

I think Mr. Sharma, Director Commercial will answer your question.

Mr. Sharma

National tariff policy which was, draft type policy was issued by the ministry on 15/03/2005. _____ we had also studied . We had made certain comments and observations officially because to ask on a little bit more detailed _____ etc. But we understand that the government of India is still discussing with the state governments. So I think it may take some time for this formally to come. We will not be able to comment on that actually, but so far as this tariff policy is coming, I think we have to have some more clarity on this renovation and modernization and we have also said to them that instead of return on equity approach if we can have the return on investment probably, then probably that will be much more conducive for the more capacity addition in the country. These are some of the observations from our side.

Sushanth

That is it from my side. Thank you very much sir.

Narasimharamulu

Thank you very much.

Mr. Topiwala

Hozefa Topiwala

Yes sir, can I take one question.

Narasimharamulu

Before you take the question, I have to supplement my answer, you asked about cash balance....

Hozefa Topiwala

I didn't ask, somebody else asked.

Narasimharamulu

Somebody else asked, then leave it. Why did he ask, I wanted to know.

Hozefa Topiwala

Sir, on this national tariff policy, just one additional question there, on renovation and modernization, what is that you all have submitted to the government and what is the area of concern for you there?

Narasimharamulu

We are only saying that on the **R&M** also there can be certain norms actually...like 4 lakh/ MW etc, instead of going on the micro that was being done actually., so that will enable anybody or any utility will be able to go in the R&M much more faster and expeditiously.

Hozefa Topiwala

Because there is one statement mentioned in the draft policy which said that the benefit of the fully depreciated power plant should go to the consumers, now obviously when the plant is depreciated, depreciation benefit goes to the consumers, but what will happen to the equity base once the power is fully depreciated, any thoughts on that sir?

Narasimharamulu

So far we are concerned, it has to remain constant, it has to remain there.

Hozefa Topiwala

Okay, thank you very much.

Narasimharamulu

Thank you.

Moderator

Thank you sir. Participants who wish to ask questions, please press *1 now. I repeat, participants who wish to ask questions, please press *1 now. At this moment there are no further questions from participants, I would like to hand over the floor back to Mr. Hozefa for final remarks.

Hozefa Topiwala

Thank you very much sir for participating in the call, and thank you very much everybody.

Narasimharamulu

Thank you very much.

Moderator

Thank you sir. Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.
