

“JSW Energy Limited -2QFY2015 Earnings Conference Call”

October 31, 2014, 4:00pm (India Time, UTC/GMT +5.30 hours)

- Speakers:** Mr. Sanjay Sagar, Jt. Managing Director & CEO
Mr. Pramod Menon, Director Finance
- Call host:** Mr. K Shankar, Analyst, Edelweiss Securities
- Moderator:** Ladies and gentlemen, good day and welcome to JSW Energy’s 2QFY2015 Earning Conference Call hosted by Edelweiss Securities. For the duration of presentation, all participants’ lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. K Shankar of Edelweiss. Thank you and over to you Sir!
- Shankar K:** Thanks Inba. Welcome friends. We would like to thank JSW Energy management to permit us to host this call. Without any further I do I hand it over to Mr. Pritesh Vinay, who is part of the IR team, to takeover the proceedings. Over to you Pritesh!
- Pritesh Vinay:** Thank you Shankar. A very good afternoon to everyone. I extend a warm welcome to all of you on behalf of the JSW Energy team to discuss the 2QFY2015 results. Apologies for the delay as the Board Meeting ended a little bit later than what we had thought and the cascading effect of that. You would have already received the results and the press release in your inboxes by now and we are in the process of uploading the presentation on the website. Just one more request before we start the call - as you all would know that we have entered into a Binding MOU with Jaiprakash Power Ventures Limited a few weeks ago for some of their assets - as we are in the middle of the process, I request all participants to refrain from asking any questions pertaining to this transaction; we would not be able to reply to any questions on that.
- We are delighted to have with us today the senior management team of JSW Energy represented by Mr. Sanjay Sagar, the Joint Managing Director & CEO and Mr. Pramod Menon, the Director Finance of JSW Energy. So, I would request the management team to give opening remarks and take you through the presentation quickly and then we will open it up for a Q&A. Thank you very much.
- Pramod Menon:** Good evening friends. Welcome to JSW Energy’s 2QFY2015 Earning Conference Call. The company has reported a net profit growth of 96% on YoY basis. It has been an extremely satisfying quarter for us wherein we have achieved the highest ever quarterly net generation of 5.2bn units, which was a growth of 20% on YoY basis and for 1HFY2015 we have achieved a net generation of 10.2bn units – up by 8% on YoY basis. Based on 20% increase in the net generation, the total turnover has increased by 14%YoY to Rs2,372 Crores. We have achieved an EBITDA of Rs969 Crores which was up by 9% on YoY basis.
- If you look at the operational performance on a plant-wise basis, the average PLF was 87% during the quarter. This was on account of improved PLF across all locations;

primarily driven by the uptick in the demand due to the weather conditions, and in Maharashtra demand was also better partly on account of elections. . Ratnagiri PLF improved from 74% in the corresponding quarter of the previous year to 82% in this quarter. At Vijayanagar we have been able to improve the PLF from 78% to 92% and at Barmer from 78% to 88%. Therefore net generation increased by about 11% at Ratnagiri, 18% at Vijayanagar and 35% at Barmer over the same period.

The total 5.237bn units generated (on net basis) of 5 have completely been sold during the quarter; of which 63% were sold under long-term and 37% were sold under short-term. The volume growth in terms of sales has grown by 14%YoY. The average realization for the entire sales was at Rs4.13/unit, which is a drop from Rs4.61 paisa per unit during the corresponding quarter of the previous year. So at one side we have had the volume increase which has been offset by the drop in the average realization per unit – resulting into an EBITDA of Rs969 Crores for the quarter. This includes certain one time items which is part of the other income. There is a claim settlement we have had with the project vendors at Ratnagiri project – resulting into a one-time gain of Rs72 Crores. During the quarter we have also made provision of Rs30 Crores towards impairment of the assets against the investments made in South Africa for SACMH.. After the Honourable Supreme Court's order canceling the coal mines, we have made a provision of about Rs4 Crores against our investment of approx. Rs11 Crores in the Utkal-A Gopal Prasad (West) mines (JSW Energy has a 11% stake in a joint venture with MCL).

In the deferred taxes for the quarter we have considered the recoverability of certain portion of about Rs10 Crores against the PPAs wherever we have got them under the two part tariff regulations basis. After providing for the same the profit after tax has been arrived at Rs319 Crores for the quarter, which is up by 96% compared to the corresponding quarter of the previous year. And for the half year, we have had a total profit after tax of Rs644 Crores – up by 71% compared to the corresponding period of the previous year. Pursuant to this result the balance sheet continues to remain strong with a total consolidated debt of about Rs9600 Crores and debt to equity ratio has come down to 1.34 times. The average cost of debt also has dropped marginally to about 10.94%.

As you are all aware that we have received the MOEF clearance to increase the mining capacity to 7 million tonnes at Kapurdi for a period of four years. We have mined 1.7 million tonnes of lignite at Kapurdi during the quarter. With the enhanced mining capacity Raj West project at Barmer is well on way to achieve its normative capacity during the current year. The power plant has stabilized very well and has consistently been able to operate at 80% or above. We are hopeful of opening up the Jalipa mines during the course of next fiscal; in order to enhance the capacity at the power plant.

For Kutehr Hydroelectric Project, we have commenced identifying the EPC contractors and aim to start the work on this project by the end of this fiscal. With these opening remarks I now open the floor for questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from Amit (???). Please go ahead.

Amit: Thanks for the opportunity. For the quarter what will be the merchant realization?

- Pramod Menon: Amit, we do not provide any numbers on our merchant realization.
- Amit: But for the entire year, is our guidance of Rs4.25 to 4.5 per unit intact?
- Pramod Menon: Yes.
- Amit: Has the overall realization come down because of lower merchant realization in the quarter. I mean I guess that would be the primary reason right.
- Pramod Menon: Yes.
- Amit: If I may ask which part either it was Maharashtra or Karnataka which led to lower merchant lower realization.
- Sanjay Sagar: There was a softening all across.
- Moderator: Our next question is from Mohit Kumar of IDFC Securities. Please go ahead.
- Mohit Kumar: Good afternoon Sir. Congratulations on good set of numbers. Sir my first question pertains to the Raj West, the tariff order, we are still waiting for the tariff order. What is the hurdle? Sir why are we not getting it for such a long time?
- Sanjay Sagar: You are absolutely right and as you said we are still waiting for the tariff order. But the issue is that there was a change in the regulatory commission about four to five months back. The new regulator, even though he is seized with the matter, is taking some time to understand it because it is a five year old petition. So, he is taking a little bit of time but we are expecting him to certainly give us the tariff in this fiscal.
- Mohit Kumar: Will we be able to open Jalipa somewhere in the present and so expand the capacity of Kapurdi mines to 7 million tonne by December-January so that we meet our entire capacity of lignite for this year?
- Sanjay Sagar: No let me correct you. Last year also we were operating at a level of 7mn tonnes but we achieved production of 3.75mn tonnes, as permitted during the last year, much before the end of the year. Therefore we had to shut down the plant for two months. Now we have received the MoEF clearance for 7mn tonnes and the Kapurdi mine is already operating at a capacity where we can achieve 7mn tonnes. So there is no enhancement required.
- Mohit Kumar: Can you share the profit of the subsidiary Raj West and any losses if there in BLMCL?
- Pramod Menon: Raj West PAT is Rs84 Crores and in case of BLMCL there is no profit or loss.
- Mohit Kumar: Sir my last question pertains to the provision we have made for the coal mines. Since the ordinance says that we will get our entire money back why we have made any provision?
- Sanjay Sagar: There is a little bit of ambiguity as far as the assets other than the land and the infrastructure are concerned. So being a little over cautious we made this provision because there is no call taken on money spent on pre-operatives and further drilling and amount spent on the geological reports and other items like this.

- Moderator: Our next question is from Abhishek Puri of Deutsche Bank. Please go ahead.
- Abhishek Puri: Good afternoon and congratulations for good set of results. First question: we do not have the details of the sales that has been generated from the power business. If you can give us those numbers?
- Pramod Menon: Abhishek can I request you to kindly be in touch with the IR team, they will provide the breakup.
- Abhishek Puri: Secondly sir I just wanted to know from you the fuel prices have actually come off on quarter-on-quarter basis in last couple of quarters whereas as per our assessment this second quarter has remained similar to first quarter on a per unit basis.
- Pramod Menon: There has been about 3% drop as far as the fuel cost is concerned. Though the API Index has corrected by about 8%t on a sequential basis and may be by about 11% on a year-on-year basis . However, a similar kind of reduction has not been there as far as Indonesian coal is concerned. We use a blend of imports of high CV and low CV coal. So this is one reason. At the same time if you look at the dollar rupee movement for this period, there has been a depreciation to the extent of about 2% on QoQ basisand a shade below 4% on YoY basis. At the same time, there has been increases in the other cost like the freight and the port charges. Thereforethere was about 3%drop in fuel cost on net landed basis.
- Abhishek Puri: My last question would be on this one-off provision that you mentioned regarding coal blocks where are these provisions been accounted for? Because I can see in exceptional items there is only one Rs30 Crore item, which you mentioned is for the South African subsidiary.
- Pramod Menon: This has been provided for in the other expenses.
- Abhishek Puri: It is above the EBITDA line.
- Pramod Menon: Yes, above the EBITDA line.
- Abhishek Puri: How much is that number? Can you just repeat that please?
- Pramod Menon: Rs 3.94 Crores.
- Moderator: Our next question is from Bhavin Vithlani from Axis Capital. Please go ahead.
- Bhavin Vithlani: What is the cash and cash equivalent and how much are ICDs given?
- Pramod Menon: Without inter corporate deposits (ICDs), the cash and cash equivalent is Rs828 Crores at the end of the quarter.
- Bhavin Vithlani: If you add the ICD.
- Pramod Menon: Then it will go up by about Rs150 Crores.
- Bhavin Vithlani: If possible another detail what was the EBITDA for Raj West plant.

- Pramod Menon: I think as far as these details are concerned, I would request if you can take the breakup from the IR team.
- Bhavin Vithlani: Lastly a theoretical question. Now the coal block auction has been opened up and in the initial rounds what we have been given to understand is companies with end use projects can bid, are we also planning to bid considering that the projects where we do not have coal linkages or imported coal based projects?
- Sanjay Sagar: No even without considering that, we are considering to bid.
- Bhavin Vithlani: Any of the geographies that we would be keen, given the logistical advantage?
- Sanjay Sagar: As and when the details are put up for auctions, we will study the contours of the various blocks. We are not sure, a lot of these blocks may get allotted to state government companies. So, we will have to look at the details and then take a call on that. I think it is a little premature at this stage for us to start deciding.
- Moderator: Our next question is from Bhavin Chedda of Enam Holdings. Please go ahead.
- Bhavin Chedda: Good afternoon Sir, good set of numbers. What would have been the coal mix at both the plants between the low calorific value, Indonesia, South Africa mix that you give and if at all if you can provided the landed cost of both coal at your plants?
- Pramod Menon: As far as the mix of coal is concerned, at Vijayanagar the total coal consumed was 0.66mn tonnes, it was 100% of high CV coal. In case of Ratnagiri, the total coal consumed was 1.08mn tonnes, out of which 40% was of high CV and 60% was of low CV coal. The total coal consumption was 1.74mn tonnes – 63% high CV and 37% low CV.
- Bhavin Chhedda: Sir, I see among the trading power volumes, your purchase of power is Rs.18 Crores just in the quarter, which means that the trading component has reduced substantially, so as a policy you have brought it down or this was just one off in the quarter?
- Pramod Menon: It was one-off in the quarter.
- Moderator: Thank you. Our next question is from Amit Golcha of Emkay Global. Please go ahead.
- Amit Golcha: This is Amit. I have two questions Sir. First is the follow-up on the fuel cost, basically is it correct to assume that whatever is the impact of the reduction in fuel prices and the exchange rate depreciation or appreciation is there in this quarter. So there will be no follow-up leg up post, this till date?
- Pramod Menon: It is completely possible, I do not think that you will find any kind of lead-lag effect - except may be at best to the extent let us say when we are taking a call of booking the coal three months or four months in advance, so let us say we have taken a call of importing low CV coal, yes so to that extent the benefit will not come.
- Amit: Secondly Sir in case of Ratnagiri if I just do a simple math your overall short term sales minus the Vijayanagar volumes is the Ratnagiri short term sales as I assume and then whatever is left is Ratnagiri long term sales, which is significantly higher than the

normal range for previous quarters almost three times the normal range. So just wanted to understand is it that we have supplied to somebody else or it is to MSEDCL and to Ispat?

Pramod Menon: The long-term sales have primarily gone up on account of sales to JSW Steel. At Vijayanagar plant, JSW Steel had one of the units which went in for a longer period of shutdown – an entire unit of 300 MW. So they were supplied power for,, as against normal period of 15 days, a period of almost two months. And as JSW steel's Dolvi unit, which is in ramping-up its various facilities and is seeing increase in electricity consumption with increase in the capacity utilization, has now consistently been taking about 375 MW power from our Ratnagiri plant. So it is primarily on account of this and as I mentioned there is about one off item in terms of the sales, which has primarily skewed it slightly in favor of the long term PPA.

Amit: In case of Vijayanagar we supplied it at 20% cost plus ROE which we used to supply earlier.

Pramod Menon: Yes.

Amit: Is that one of the reason why the overall realizations have come down basically?

Pramod Menon: That is not a very major amount. But in general, let us say across the block there has been a softening of merchant prizes, in the southern region also.

Amit: Sir basically just to understand it we have already signed a contract in case of southern regions, so is it that we have declining tariffs and front loaded higher tariffs in that contract?

Pramod Menon: It is all steady; there is no back loading or front loading.

Moderator: Thank you. The next question is from Deepak Agarwal of Elara Capital. Please go ahead.

Deepak Agarwal: Congrats for a very good results. My first question is on higher offtake, which has been taken by JSW Steel at the Dolvi plant like in the earlier call you mentioned that they were in the process of expansion and you expected the supply to increase from 300 megawatts to 550 megawatt over a two year period, so is it fair enough to say that this has already started and it will go up gradually on that 375 to 400 and going...

Sanjay Sagar: I think it is fair to presume that the process has started.

Deepak Agarwal: The tariff principle would be the same as what is existing 300 megawatts.

Pramod Menon: Now tariff is at CERC regulated norms, it will be exactly as per CERC regulations.

Deepak Agarwal: So now it will be at 15.5 versus 20% which was the payment, from this quarter onwards.

Pramod Menon: Yes.

Deepak Agarwal: My second question is just a follow-up on the coal mining where you rightly

mentioned that you should be bidding for mines as and when they come up, but for your existing plant at Vijayanagar and Ratnagiri to what extent they can be blended with the domestic coal if you end up winning some of the bids?

Sanjay Sagar: That will depend on the quality of domestic coal that we get in the mine that we bid for.

Deepak Agarwal: But usually the calorific value is known?

Sanjay Sagar: There is a wide range of calorific value. The calorific value that you are referring to is probably which is known in the general CIL grade, which is supplied to the power sector, but in case of these mines, there is a wide range and secondly we will also evaluate the options of washing the coal and its wash-ability. Thirdly, it will also depend upon the quality of imported coal that we blend it with. There are various factors, it is difficult to answer it at the moment, but blending is possible.

Deepak Agarwal: The next thing is on the Capex on this Kutehr plant like last time you mentioned that the plant is currently on hold till the time the issues get sorted out on the PPA front and in the opening remarks Mr. Menon just mentioned you know you are looking to award the construction by end of this year, so what has changed in last few months?

Pramod Menon: Basically, we are also working to ensure that we have financial tie-up ready. We are working to keep everything ready and we are hopeful that we would also have the PPA during this time period. So with that expectation, we are working upon.

Deepak Agarwal: So it is more of readiness to start rather than going for actual start.

Sanjay Sagar: Absolutely right.

Deepak Agarwal: My last thing is that I have one clarification; you mentioned Rs.72 Crores claims that you have received, what exactly is this claim?

Pramod Menon: The thing is that at the time of project implementation at Ratnagiri, there were issues with one vendor as part of those we have already at the time of implementation as far as the bills are concerned, we have all capitalized it and subsequently there have been LD related issues, so those are now being settled and the full and final settlement has been reached with the vendor. As a result, whatever we have earlier booked and provided for is what is to be reversed as per this settlement. As a policy if you would have been following consistently JSW Energy, for all the power plants as and when we have settled the issues on the LDs we have been taking it through the P&L and that is what we have consistently done in this particular quarter as well.

Deepak Agarwal: My last question, if I can squeeze one more, is we have been consistently seeing the loss from associates coming down, so what is the way forward like, when can we see the actual turnaround happening and realistic assessment of profit from this venture?

Pramod Menon: As of now as per the plan given by them from next year onwards, it should turn into the black.

Moderator: Thank you. Our next question is from Deepika Mundra of JP Morgan. Please go ahead.

- Deepika Mundra: Thank you for taking my questions. My first question is on the balance sheet, any explanation for as to why the debtors have gone up slightly in this quarter or in the first quarter?
- Pramod Menon: If you look at debtors as on March 31, 2014, we had debtors of only Rs.110 Crores at Raj West primarily due to the shutdown of operations during February and March 2014. So you practically did not have any kind of bills due from them but now debtors for Raj West operations are back to normal levels. This has come back to the normal level of about 60 odd days – at about Rs.500 odd Crores. So it is that the only one major movement, otherwise there is nothing otherwise alarming as far the debtors are concerned.
- Deepika Mundra: The next question on the balance sheet again given that you know you are one of the few power companies with very comfortable leverage levels incase of an expansion what is the peak leverage that you are comfortable with?
- Pramod Menon: Generally all the projects in this particular space is funded in 3:1 debt to equity ratio at the project level and to that extent as far as any particular project is concerned, I do not think we have any issue. So, those projects have to be on a self-sustained basis and we have generally been looking to fund the respective projects that we take up, whether it is Kutehr or otherwise, at least on 3:1 debt to equity ratio.
- Deepika Mundra: Sir any banked energy related transactions in the quarter?
- Pramod Menon: No.
- Deepika Mundra: Because typically in the second quarter you generally have some transactions, so any particular reason for this quarter not having any?
- Pramod Menon: As I mentioned in my opening remarks, the pickup has been better as far as this quarter is concerned.
- Moderator: Thank you. The next question is from Rahul Modi of Antique Stock Broking. Please go ahead.
- Rahul Modi: Congratulation on a good set of numbers. Sir I just wanted to ask if there is any update on the Karnataka and the Telangana bids.
- Sanjay Sagar: They are still on hold.
- Rahul Modi: There is no timeline.
- Sanjay Sagar: As of now, no.
- Moderator: Thank you. The next question is from Anirudh Gangahar of Nomura. Please go ahead.
- Anirudh Gangahar: Thank you for the opportunity. Sir the first question is the 300 megawatt supply that we did from Vijayanagar to JSW Steel that is one off and we will go back to our normal selling contracts at Vijayanagar?
- Pramod Menon: Yes, we have already gone back.

- Anirudh Gangahar: If you just can help us in terms of Dolvi as well 375 megawatts you mentioned that now it is recurring, the entire sale to Ispat will also now go to on 15.5% instead of 20% to previously?
- Pramod Menon: Yes.
- Anirudh Gangahar: And 375 would ramp up to 475 as per the previous conference call that you guided to us about 200 megawatts would go up.
- Pramod Menon: But as I mentioned it will go up in sync with the expansion of the Dolvi plant.
- Anirudh Gangahar: In four to six quarters from now, it will hopefully reach that particular.
- Sanjay Sagar: That will entirely depend on the expansion of Dolvi.
- Anirudh Gangahar: Sir the other question I had was that if you can help us as to what is the kind of capacity tie-ups that we have overall in terms of the open ended capacity?
- Pramod Menon: There has not been any change from whatever we have guided in the last analyst call, no changes at all.
- Anirudh Gangahar: Sir anything in terms of your assessment of where the net generation from Ratnagiri would be by the end of the year, now that we have started Dolvi as well, hopefully it will be looking much better?
- Sanjay Sagar: It should certainly look better than last year.
- Moderator: Thank you. The next question is from Mohit Kumar of IDFC Securities. Please go ahead.
- Mohit Kumar: Just one clarification, are we going to sell, are we going to convert two units at Ratnagiri as captive for power plant?
- Pramod Menon: Already, whatever supply is being made, it is being done under the group captive route and duly approved.
- Mohit Kumar: Does it mean that JSW Steel will have to acquire further shares of JSW Energy?
- Pramod Menon: It is not required. The structure is already in place.
- Moderator: Thank you. Our next question is from Anujay Jain of Emkay Global. Please go ahead.
- Anujay Jain: A small clarification Sir. In case of Vijayanagar, you had mentioned that you have supplied 300 MW to JSW Steel. By supplying this, given that we had already contracted with this capacity with the southern utilities, was it that the demand in those context were low that is why we supplied it here?
- Pramod Menon: As I mentioned to you we have a long term PPA/commitment to JSW Steel there and the supply had to go. It has nothing to do with the merchant rates or otherwise.
- Anujay Jain: But actually Sir I am a bit confused, long term PPA with JSW Steel in case of Vijayanagar.

- Pramod Menon: When I say long term PPA because they had signed a long term PPA but they have not been picking up anything on that, but let us say as and when they need, there is a commitment to supply under that.
- Anujay Jain: Commitment is from our side, not from their side, is that correct?
- Pramod Menon: There is no commitment from their side, only as and when it is required.
- Anujay Jain: For that much capacity, we will have to always keep free.
- Sanjay Sagar: It is not that we will always have to keep it free, they will give us due notice and we will arrange for it. Have you ever seen the capacity free? It is done as per a structured mechanism..
- Anujay Jain: Because at the end of the first quarter you were not told that this is going to be supplied.
- Pramod Menon: As I mentioned to you there was some shutdown like they had to go for a shutdown which was a 15-day shutdown because of which they have had an extended period, the shutdown was 60 days.
- Anujay Jain: This is for how many years you have signed this PPA, forever basically whenever they shutdown their plant might ask you for power.
- Pramod Menon: Yes, they are likely to ask on this provided we have un-tied power.
- Moderator: The next question is from Bhavin Chheda of Enam Holdings. Please go ahead.
- Bhavin Chheda: These supplies to JSW Steel from the Vijayanagar plant has been classified in PPA?
- Pramod Menon: Originally we have always classified it under PPA, you can refer the IPO documents.
- Bhavin Chheda: Because I think when previously we were supplying it used to be on a conversion basis and we used to charge Rs1.30 over and above the variable cost because the coal used to get supplied from this. So now actually you are buying your own coal and billing it on full basis.
- Pramod Menon: Correct.
- Bhavin Chheda: Just because previously you are classifying it under long term PPA, you have kept that method intact. Otherwise it would have been under merchant.
- Pramod Menon: That's right.
- Moderator: Thank you. Our next question is from Rahul Modi of Antique Stock Broking. Please go ahead.
- Rahul Modi: Just a followup question, I wanted to ask you now that you are mentioning that there is a PPA with JSW Energy, so do we qualify to bid in the tenders for Telangana and Karnataka whenever they come because we already have.



- Pramod Menon: Just let me clarify when I say PPA it was only as and when they take a shutdown or let us say any emergency exists then only it is there, otherwise the entire plant is on merchant basis.
- Rahul Modi: So there is an overlap of capacity in terms of you know your eligibility to bid.
- Sanjay Sagar: So in case my power gets tied-up into a long term PPA with any state then my commitment to JSW Steel will get extinguished.
- Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to the management of JSW Energy for closing comments.
- Pritesh Vinay: Thank you very much all of you in case there are any follow-ups, hygiene and housekeeping related questions, please feel free to get in touch with Sandep Agrawal or myself. Thank you very much.
- Moderator: Thank you. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.