



“JSW Energy
Q4 FY2019 Earnings Conference Call”

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ANALYST: MR. ABHISHEK PURI – AXIS CAPITAL LIMITED

MANAGEMENT: MR. PRASHANT JAIN - JOINT MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – JSW ENERGY LIMITED

MR. JYOTI KUMAR AGARWAL – DIRECTOR (FINANCE) – JSW ENERGY LIMITED

MR. SHARAD MAHENDRA – CHIEF OPERATING OFFICER– JSW ENERGY LIMITED

MR. PRITESH VINAY - VICE PRESIDENT, INVESTOR RELATIONS & CAPITAL MARKETS– JSW GROUP

Moderator: Ladies and gentlemen, good day, and welcome to the JSW Energy Q4 FY2019 Earnings Conference Call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Puri from Axis Capital Limited. Thank you and over to you Sir!

Abhishek Puri: Thank you Stephen. Good evening ladies and gentlemen. On behalf of Axis Capital, I welcome you all for the JSW Energy Q4 and FY2019 Earnings Conference Call. From the company we have Mr. Pritesh Vinay, Vice President Investor Relations and Capital Market. The call will be initiated with a brief overview by the management followed by the Q&A session. Over to you Pritesh!

Pritesh Vinay: Thank you very much Abhishek. A very good evening to all the participants who have dialed in for JSW Energy’s fourth quarter and full year fiscal 2019 results. I am sure you have had the chance to go through the results, the press release and the earnings presentation, which has already been uploaded on the website. We have with us today the management team of JSW Energy represented by Mr. Prashant Jain, Joint Managing Director & CEO, Mr. Sharad Mahendra, Chief Operating Officer and Whole Time Director, and Mr. Jyoti Kumar Agarwal, Director (Finance) along with other colleagues. So we will start as Abhishek mentioned with a few minutes of opening comments by Prashant and we will then open the floor for Q&A and request every participant to restrict their questions to two per participant in order to give everybody a chance. With that, over to Prashant!

Prashant Jain: Thank you Pritesh. Good evening ladies and gentlemen. FY2019, the demand growth for the power sector was 5.1%; however, Q4 demand growth was muted at 1.6% largely due to extended winter and poor IIP. Thermal PLFs have shown improvement from 59.9% last year to 61.1% this year. Total capacity addition was 6.8 GW during the Q4, of which 3.6 GW was in thermal space and 3.25 GW in renewable space. In the entire year, total capacity addition was 12.1 GW, of which 3.4 GW was thermal and 8.6 GW was renewable. This 8.6 GW renewable is as against the target of 21.8 GW. One important thing, which we have observed that the total capacity addition in the sector is continuously moderating. In FY2017, total capacity addition was 24.7 GW, which moderated to 17.1 GW in FY2018 and was moderated to 12.1 GW in FY2019. Similar trend we observed in renewable sector also. FY2017 the capacity addition was 14.4 GW, FY2018 it was 11.8 GW and it moderated to 8.6 GW in FY2019.

The point which I am trying to bring out is that the capacity addition is getting moderated and power demand is robust at 5% to 6% since last two years and CEA has also forecasted the power demand to grow between 5% to 6% for FY2020. In addition to that, in FY2019, we saw the total retirement of the old thermal plant by 2.4 GW, so that retirement has started and we believe with the new environment norms kicking in between FY2020 to FY2022, the target retirement of 20 to 22 GW is going to materialize and all this is going to bridge the demand and supply mismatch

and with no new capex coming in, power shortage may happen in time to come. The merchant volume during Q4 went down 12% year-on-year and 27% quarter-on-quarter. The prices also went down, but for FY2019 the merchant prices were up by 18% at Rs.3.85 paisa as compared to Rs.3.26 paisa in the previous year.

During the year, we saw Coal India production went up by 6.6% at 671 million tonnes and dispatches to power sector went up by 7% at 542 million tonnes.

Coming to the Company, for the quarter we saw 3% lower generation primarily due to the lower merchant sales, which was due to poor demand in the Q4, however, our EBITDA went up by 9% at Rs 570 Crores. For the entire year, our EBITDA was at Rs 3,221 Crores and the important thing, which I want to highlight here, is that our quality of EBITDA has improved because majority of the portion coming from operating income, and other income is going down.

During the year, we increased our long term PPA portfolio from 75% to 80.4%, and in FY2020 we have already secured short term and medium term PPAs and because of which we are having a visibility of 90% tie-up for the entire consolidated capacity which is excluding the PFC three-year tender and strong visibility which we are seeing in some more short term and medium term tenders. Therefore, we are expecting in FY2020, the PLFs will be on a higher side. Also you have to note that, in FY19, our generation was lower by close to 600 million units in hydro plant as compared to previous year because of the less availability of water, but the current year is going to be good because of heavy snowfall, which we saw last year and hence the water availability is very good this year. So, hydro generation is expected to be very good this year.

We have been continuously deleveraging our balance sheet and given our plans to diversify into electric vehicle have been shelved, we will be now putting all our cash to further reduce leverage on the balance sheet and to grow in power and power-related sector. During the year, we reduced our debt by in excess of Rs 1,200 Crores and our net debt has come down to Rs 10,050 Crores and our debt to equity and debt to EBITDA ratios are very, very strong, which gives us a good confidence to take on more growth opportunities organically and inorganically. I am also happy to report that we have taken various measures to improve operational efficiencies because of which our O&M costs have been consistently coming down. In spite of wage increases as well as the inflation which we have been seeing in the last three years, we have reduced it substantially. We recently did a benchmarking and found that we are one of the lowest in the IPPs both in public and private sector in our O&M cost.

In terms of outlook, as CEA has shared that it is expecting 5% to 6% demand growth, we are seeing enough opportunities for growth organically and inorganically. Organically, we are going to commission our two projects of 18 MW for captive purpose in the first quarter. We are also evaluating to revive Kuthar hydro project after the announcement of new hydro policy by cabinet committee wherein they have granted a capital subsidy up to Rs 1 Crore per MW for construction of road and bridges, and the new Hydropower Purchase Obligation rule which will be notified shortly after the new government is formed. The Government of Himachal Pradesh has already accorded approval to us for deferment of the free power for first 12 years. We are in discussion

with various discoms for long term tie-up of this project for 240 MW. So we will continue to evaluate and if we find everything goes well then we will announce this project to be started. With this I conclude my remarks and we are happy to take any questions if you have any.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Santosh Hiredesai from SBICAP Securities. Please go ahead.

Santosh Hiredesai: Sir, thanks for the opportunity. Sir, I just wanted to get some colour on this recent PFC bid which happened, what are the timelines out there and what is the arrangement for coal, is it completely imported or you can switch between, how is it structured like?

Prashant Jain: It is up to the power producer from where they are securing coal, so even the SHAKTI Coal and coal linkages are permitted to be used in this particular tender. As regards to JSW Energy, we have considered that we will be using imported coal. And you know that at right point of time when we are able to secure a PPA and that PPA is finalized, then we can hedge coal and lock our dark spreads. And in the current market, which all of you are already aware, the thermal coal prices, API 4 index prices, on the spot market today are at sub \$70 and for calendar 1 it is approximately \$77 and calendar 21 it is \$79-\$80. So the papers can be hedged and that is what we have envisaged as far as JSW Energy is concerned. With regards to timing, tender document talks about the power to start from October 1, 2019, but there can be some delays depending upon the tie-ups on a case-to-case basis, however, as far as JSW Energy is concerned, we are taking our separate initiative to tie-up with discom based on this tender. So, we are getting some visibility that it will be earlier than what we were thinking a couple of weeks ago.

Santosh Hiredesai: Sure and Sir the offtake commitment here is?

Prashant Jain: 85%.

Santosh Hiredesai: And, two-part tariff where 85% is commitment and we get paid fixed charge?

Prashant Jain: The way it is structured is that 50% of the quoted tariff of Rs.4.41 paisa, is fixed charge and balance is variable charge, so in case of a shortfall, fixed charge will be paid.

Santosh Hiredesai: Alright Sir. I will come back in the queue for more questions. Thank you.

Moderator: Thank you. The next question is from the line of Rahul Modi from ICICI Securities. Please go ahead.

Rahul Modi: Thank you for the opportunity. Sir, just a couple of macro questions as to which states are you finding who will be coming up with medium term and long term PPAs that we are targeting over the next 12 months, if you can throw some light on that please?

Prashant Jain: It is in public domain, for example right now Government of West Bengal has come out with a five-year tender. There are some long term tenders also, which is 3000 MW is coming for bidding from Gujarat. There are southern states, which are looking for power, whether it is

Telangana, Andhra Pradesh and Tamil Nadu, they are short of power. So a number of states are coming up for various tenders, so we are looking at various kind of opportunities, but what I can share is that if you see last three-year trend, earlier DISCOMs were buying power only from the merchant market and only in last one year the tenders have started coming, earlier it was one month or for a couple of days, but in the last six months the tenders are coming for nine months to five years. So the trend is towards more of a medium term than the short term and more and more quantum is coming up because if power demand is growing at 5% to 6%, you are actually talking about your additional capacity requirement of close to 15,000 MW on a base demand of 155 GW if you add PLF and auxiliary power consumption. So excess capacities are getting absorbed and this is what you are seeing the trend, so we are quite optimistic.

Rahul Modi: Sure, great. Sir lastly what is the status of the JPVL and the JSPL advances, how much is the current outstanding as it stands and what is your view on that?

Prashant Jain: Jyoti, would you like to take this question?

Jyoti Kumar Agarwal: First I will talk about JSPL, the long stop date for the Tamnar asset is June 30, 2019 and until that point of time the advance continues, the current outstanding is Rs 331 Crores, a little bit higher than that and it is being fully serviced in terms of monthly interest payment. The visibility on that transaction is low, but we will have to wait till the long stop date comes and if the transaction does not happen then we expect the advance to come immediately after the long stop date. On JPVL, the current outstanding amount is Rs 752 Crores against which we have taken a substantial amount of provision, the unprovided amount is Rs 178 Crores. Now here, the company is talking to lenders for outside of NCLT resolution plan and we are trying to work with the company to see how do we recover the entire Rs.752 Crores the amount that is outstanding in the book. For the amount that is not provided for, we do have some contingent consideration payable to them, so it will be set off in case we do not get the recovery of the same. We are not booking any interest income because that has not been paid on this amount.

Rahul Modi: Great Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Managers. Please go ahead.

Manish Gupta: Hi, this is Manish Gupta from Solidarity. Prashant, my question is what is the probability you would ascribe to inorganic opportunity that the company could pursue through NCLT or outside based on the visibility you have at present?

Prashant Jain: Manish, if you look at the context, the power sector is in tremendous stress, close to 28000 MW capacity is under stress, but in the last one-and-a-half years, you have been seeing that the February 12, 2019 circular, which has been challenged primarily by the power generators, because of which there was a lot of delay, which was happening in terms of any resolution outside NCLT or within NCLT. Off late, in the last three to four months, we have seen two to three cases getting admitted in NCLT under IBC process, so the process is going to gather

momentum, I will say that I am more optimistic than I was last year in terms of some resolutions happening this financial year. Given the size of our balance sheet and our active interest for consolidation in this sector, we have a very natural choice to acquire some of the assets, however we will be picky and choosy and we will be looking at those assets, which are really value accretive for us because we believe that power sector is not an easy sector, so we need to be really careful.

Manish Gupta: Where I am going with this was that if after a period of time you do not end up buying any assets because of how disciplined we are, will you consider returning some cash to shareholders because as a capital intensive business our debt to equity is too low, so the company is generating almost Rs 2,000 Crores of free cash every year, what is the roadmap for value creation essentially if we cannot grow inorganically and organic prospects are also not very rapid and the company is accumulating cash, so how do you think about you know the cash return to shareholders to boost some value creation?

Prashant Jain: So Manish, we have been historically rewarding the shareholders, in past we have done up to 40% to 45% pay out as a dividend, this year also our dividend is 28% pay out and I am very, very optimistic that there are a lot of opportunities because I am painting a scenario that in two-year time frame there will be shortage of power and there is no capex, which is happening. So, I will put more probability towards that the growth will be happening sooner than later, however, in case we do not find any opportunity, we have been always working towards rewarding the minority shareholders by distributing the cash.

Manish Gupta: Appreciate that Prashant, again I think we are in a business where our cash EPS is far higher than accounting EPS right. So, you know I think again Rs.4 earnings per share, I think the dividend payout is Rs.1 per share, but the cash earnings per share is significantly more than Rs.4, so under the scenario where you believe that you need the cash for inorganic growth, absolutely the cash will stay with the company, but if after a year or so you are not being able to conclude any NCLT deals or otherwise, I would urge you to think about the payout ratio, that is one. Second question is that can you just advise on any update on the state electricity board, what is the payment situation over there in terms of receivable days?

Prashant Jain: Overall our receivables are under control whatever number of days we have been working with, it is the similar trend, so we have not seen any kind of abnormality even post-election in some of the recent states we have not seen, and still DISCOMs are able to raise money from banks. And as far as JSW Energy is concerned, we have not seen any meaningful deterioration in the receivables. So, it is within our range whatever we keep the target.

Manish Gupta: Okay, thank you very much.

Moderator: Thank you. The next question is from the line of Abhishek Puri from Axis Capital Limited. Please go ahead.

- Abhishek Puri:** Thank you for the opportunity. I had a couple of queries. One on the hydro power projects that you have acquired, how much is the debt pending on the balance sheet now?
- Jyoti Kumar Agarwal:** About Rs 5,500 Crores.
- Abhishek Puri:** So that has not been repaid in the last couple of years?
- Jyoti Kumar Agarwal:** It has been repaid, but it has been going down. The current outstanding is what I am talking about.
- Abhishek Puri:** What is the payment cycle on this, if you can just brief us?
- Jyoti Kumar Agarwal:** All our debt are long term debt at the project level – Barmer, JPTL, as well as Hydro. These are very, very elongated long term debt, so there is no real immediate cash flow issue coming from any of these debts. The parental debt is also reasonably elongated although it is a bit shorter than the project debt.
- Abhishek Puri:** Could we assume 3 to 5 years or is it more than 5 years?
- Jyoti Kumar Agarwal:** Longer than that.
- Abhishek Puri:** Just trying to ascertain the flexibility in terms of leveraging the balance sheet for further acquisitions, so was trying to understand that and secondly for Vijayanagar this PPA starts from July 1, 2019 you said?
- Prashant Jain:** Yes.
- Abhishek Puri:** 300 MW, so is there any further capacity tie-up which is expected in the near term or are we selling it on exchanges?
- Prashant Jain:** Another capacity which we have already booked in PFC tender, so it is a matter of time whether it gets longer term from October, November or September depending upon the tie-up we do there. With that the 600 MW will get locked up and the rest is already with the JSW group. So the day PFC capacity is locked up and power flow starts, Vijayanagar will be fully locked up.
- Abhishek Puri:** Lastly, I just want to understand in terms of the acquisition part, I think you answered partly to the last participant, but are you also willing to look at solar and wind projects. I think there are enough number of projects which we have heard are available for acquisitions and what will be the hurdle rate for in terms of IRR?
- Prashant Jain:** Yes, we are absolutely looking at those assets, but for us the criteria is the power tariff should be lower than Rs.4 or Rs.4.50 paisa. We are not interested to look at the assets, which are having a power tariff of Rs.6 to Rs.6.50 paisa.

- Abhishek Puri:** In terms of IRR? I think earlier you mentioned you are looking at returns of closer to the CERC rate?
- Prashant Jain:** Yes, but as I said that those things keep on changing depending upon the interest rate scenario and various other financial structuring and the most important thing at this point of time for us is that we are looking at the assets which are lower power tariff.
- Abhishek Puri:** One last small data point, the standalone debtors are almost flattish, whereas consolidated has gone up by Rs 400 to Rs 450 odd Crores, so is there a delay at the Barmer end by the customers or is it the hydro plants?
- Jyoti Kumar Agarwal:** Largely at the Barmer end, one of the DISCOMs there out of the three, we are seeing some delays, but as Prashant mentioned in response to a question earlier, in terms of the number of days of receivable, it is still within the broad range that we have a parameter on where we are comfortable. So it has still not crossed that, but you are right, the increase in the consolidated debt is largely because of Barmer.
- Abhishek Puri:** Okay and the Rs.2.50 tariff that as per the regulatory order that came in Barmer, has that been implemented already and what tariff are we looking for FY2020?
- Prashant Jain:** It is the same, right now we have been getting for the last financial year Rs.2.50 paisa and new regulations have not been notified yet, so original tariff is continuing.
- Abhishek Puri:** Okay, thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Swarnim Maheshwari from Edelweiss. Please go ahead.
- Swarnim Maheshwari:** Thanks for the opportunity. Sir, in one of the replies, you did mention that you are quite picky and choosy in terms of acquisition for stressed assets, but if you can just outline you know your framework for looking at the stressed assets, when you bid, what is that you look for, the PPAs, the FSAs or what is the most important criteria for you?
- Prashant Jain:** As I mentioned just now, the most important criteria for us is the power tariff, because there is no question for us to look at and rely on PPA, then do not get our receivable and have a working capital crisis and subsequently or offer discounts to DISCOMs. So we have been looking at assets where you know the power tariff is reasonable so that we get preference in merit order dispatch, because all of you know that what is the situation of the DISCOM health and for us the receivable is the biggest risk in this particular business which can only be mitigated if our power tariff is very, very competitive and we get a preference in merit order dispatch. So that is the single important factor for us. Other than that, of course we are looking at the location of the plant, quality of plant, technical - whether it is sub critical, super critical, capital structure, you know everything is important and the biggest hurdle for us is power tariff and there are the other important things which we look at.

- Swarnim Maheshwari:** Right Sir understood. Sir, a related question would be you would have seen in recent bids when the project has actually exchanged hands, we have seen this DISCOM kind of renegotiating the tariffs, so what is your take on that?
- Prashant Jain:** Which tender you are talking about?
- Swarnim Maheshwari:** Sir, this was on the Prayagraj that we have seen recently, also in KSK we have heard that the UP DISCOM is kind of negotiating the tariff after the haircut has been taken by the lenders?
- Prashant Jain:** Jury is still out because the matter is subjudice, but I can give you my personal opinion not about Bara, but I feel that the assets are under stress because of certain reasons and because of those reasons, the cash flows are discounted and a new capital structure has been formulated and if that capital structure is questioned and the rate is renegotiated or changed, then the entire capital structure has to be further renegotiated and that will be a never ending loop. So, I think it is going to test some legal points in the Court of Law and very soon I think it will be settled.
- Swarnam Maheshwari:** I had this query because you are also looking to bid for such kind of assets, so in future this might also be one of the overhangs. Sir, lastly you did answer on your renewable strategy, but I am sorry we were not able to hear you properly, so the point is given the aggressiveness now broadly heading in the green field renewable bids, would you reconsider your strategy of entering into the renewable side, specifically on solar and wind and I am not really talking about inorganic growth in the renewable, but more on the greenfield projects?
- Prashant Jain:** We are evaluating that space because we have seen certain moderation in the tariff, you saw the tariff going as low as Rs.2.42 paisa and now they have come up to Rs.2.79 paisa to Rs.2.85 paisa, and this needs to be seen in the light that the time at which people were quoting Rs.2.42 paisa, the panel prices were at 34 to 35 cents and now they have dropped to 21 to 22 cents, so I think some sanity is coming in this sector and we are now evaluating to look at these opportunities.
- Swarnam Maheshwari:** Thank you so much and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Rahul Modi from ICICI Securities. Please go ahead.
- Rahul Modi:** Sir thank you, just two quick questions. Sir, one can you share with us your experience in curtailing the O&M costs which are commendable that is one, what are the measures that we are taking and secondly in case there is any delay that we see in the overall outside NCLT or acquisition cases the banks come up with over the next 12 to 18 months do we see a higher repayment happening for the loan, any thoughts on that, or we would like to preserve the cash as and when it comes, so just last two of my questions?
- Prashant Jain:** Okay so in regards to O&M, we started with a number of initiatives ranging from improvement in heat rate, reduction in auxiliary power consumption, we took various innovations drive across the organization and I am just happy to share JSW Energy is the company which is going for Deming Prize for Total Quality Management and this year we are going for assessment and if we

are assessed positively for Deming Prize we will be the first company in energy space outside Japan after 30 years. So, we have taken various initiatives to, as I said to reduce auxiliary power consumption, heat rate, coal losses - losses between as fired and as received coal, the maintenance practices, shut down timing has been reduced in case of our hydropower plant, water conservation exercise, energy efficiency exercises, we use digital technology for manpower productivity improvement, we have been consistently improving our manpower productivity and still we are trying to do the benchmarking with the world's best organization because we believe that these are the things which we must do. Also we took various initiatives for very quick start and ramp up and ramp down of the load for selling power in the merchant market, so that we can capitalize for even 15-minute load if there is a demand, we can cater and then sell our power and make more money. So these are the things, which are going to be recurring for us and we will continue to work on digital initiatives and quality initiatives. As regards to your second question for NCLT, I am quite optimistic because it has been kicked down the road for quite a long and then now things have been into a difficult situation and the way you are seeing the problems are coming from all sides, so I think resolutions are going to happen and we are quite optimistic for some assets will be resolved in NCLT or outside NCLT and we will be able to close some transaction, which meets our criteria.

Rahul Modi: Thank you and all the best.

Moderator: Thank you, ladies and gentlemen that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Pritesh Vinay: Thank you everyone for joining us for this call. In case there are any follow-ups, please feel free to reach out to us at the investor relations team and we will be happy to settle them. Thank you and good bye.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.