"JSW Energy Q3 FY-16 Earnings Conference Call"

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MODERATOR: **MR. ARUN KUMAR – HSBC SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the JSW Energy Q3 FY16 Earnings Conference Call hosted by HSBC 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 phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Arun Kumar. Thank you and over to you sir.

Arun Kumar: Thanks Lizan. Welcome once again, it's a pleasure to host the senior management of JSW Energy for their earnings call today. The management is represented by Mr. Sanjay Sagar – Joint Managing Director and CEO and Mr. Pramod Menon – Director Finance. We also have the IR Team led by Mr. Pritesh Vinay. I now hand over the call to Mr. Pritesh Vinay for the initial comments and then we can have the questions and answer session. Over to you Mr. Pritesh.

Pritesh Vinay: Thank you very much Arun, a very good afternoon to you. On behalf of JSW Energy it is my pleasure to welcome all of you to this Earnings Call to discuss the 3rd Quarter fiscal 2016 results and the business outlook going forward. I will now hand the floor to Pramod Menon-Director Finance of the company for his opening remarks and then we can have Q&A after that. Over to you Pramod.

Pramod Menon: Good evening friends and I welcome all of you to the analyst call for the 3rd Quarter results of JSW Energy. It is extremely heartening for us to share very good operational performance by the company across all the plants which is getting reflected in terms of our average deemed PLF at 87% for the quarter. Across all the locations we have been able to maintain very high PLF. At Vijayanagar, during the quarter we have seen a 96% PLF and Ratnagiri the average deemed PLF was 90%. Barmer had a standout performance during the quarter wherein we had an average deemed PLF of 85% and highest ever quarterly net generation of 1.7 billion units which was actually capped by almost 93% PLF during the month of December, which basically reflects the kind of stability that we have been able to bring across on the Barmer related project. Even on the recently acquired hydro project the hydrology has remained well; though in terms of the designed energy generation capacity, during this period it was slightly lower. However, the plant has operated in accordance with whatever was the plan. This has resulted into the total net generation of 6 billion units during the quarter, mainly driven by, as I mentioned, the performance from Barmer and it also happens to be the highest quarterly net generation.

49% of the entire generation was sold in the short term market and about 51% was long-term. We had witnessed some amount of back-down during the course of the quarter - in terms of the long-term PPA, especially in JSW Steel - primarily on account of the shut down taken to enhance the capacity from their existing locations as part of their expansion plans. So some amount was available for sale in the short-term market during the quarter.

The quarter also witnessed the company getting the tailwind effect with respect to the receding international coal prices and part pass-through resulting in improving margins during the quarter despite the fact that the rupee has depreciated marginally. The company, for the quarter, had an EBITDA of Rs.1,218 crores with a margin of 46% as compared to 42% EBITDA margin in the corresponding quarter of the previous year where we had total EBITDA of Rs.1,012 crores. Although the EBITDA has been higher, because of the acquisition of the hydro assets the interest and depreciation costs have gone up significantly. This has resulted in the PBT of the company at Rs.504 crores as against Rs.530 crores in the corresponding quarter of the previous year. Also the taxes which are required to be provided on an effective cost basis, the average tax during this quarter has been higher. However, as far as the tax provision is concerned, for the year as a whole we expect it to be around 27% and our effective tax rate for the nine months period is about 28%.

During the quarter we have also made a truing up provision for the Barmer Power project and taking into account all these provisions, the company has had a net profit after tax of Rs.321 crores as compared to the corresponding quarter of the previous year when we had Rs.380 crores. With this addition of Rs.321 crores to the net worth, the gearing of the company on a net debt to equity basis stands at 1.8 times with the total net debt getting reduced to Rs.15,506 crores. The company also had the benefit of reduced interest cost - partly the refinancing impact as also the reduction in the base rate. The weighted average cost of debt has come down to 10.35% as of 31st of December 2015. We continue to look to refinance part of our debt and our aim over the next 6 to 12 months' period would be to bring down the interest cost to less than 10% without providing for any reduction in the base rates.

Even on the mining front, the performance has been encouraging with total 1.74 million tons of lignite being mined during the quarter. The work on Jalipa opening up is also progressing satisfactorily.

At the board meeting today the company has also decided to go ahead with the Kutehr project for which during the quarter the company had finalized the bidder and has gone ahead with the award of the contract on EPC basis. The project cost is anticipated to be about Rs.2,900 crores and to date the company has spent Rs.254 crores. We expect the financial closure to take place over the course of the current quarter.

The company continues to get the benefits, as seen from this particular quarter's performance, in terms of improving operational efficiencies, easing of the overall weighted average cost of interest and the impact of reducing international coal prices resulting in an improved margin for the company.

During the quarter we have also been able to improve the credit rating. Credit rating of the Raj West Power project has been upgraded by one notch and we are also in the process of renewing the rating of loans of the subsidiaries.

The outlook as far as the sector is concerned; on the shorter term we are impacted by sluggish demand. However, the government has adopted policies for improving the fuel availability primarily on the domestic side; announced distribution reforms with the unveiling of UDAY scheme etc. So to a large extent I would say the platform has now been set for the state governments to go ahead and start securing long-term PPAs for their power requirements especially since the economy is expected to grow at a faster rate.

With these opening remarks, now I leave the floor open for questions. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Atul Tiwari from Citi Group.

Atul Tiwari: I have 2-3 questions, first is this tariff on the hydro power assets. In the quarter the notes to account says that the tariff has been booked according to the tariff filing that you guys have done. So, what is the net difference in the tariff that you have recognized and the provisional tariffs during the quarter?

Pramod Menon: We are recognizing the tariff on the basis of whatever has been filed and as far as the procurer is concerned, in this particular case PTC, they also are recognizing the dues based on the billing. In this particular case, as compared to Raj West where we had an order in terms of a provisional tariff, there is no such order which is prevalent. If there was such an order then we would have booked the revenues based on that provisional order. If you look at the debtor confirmation that we have received and are continuing to receive from PTC is based on the invoicing which is being done at the petitioned rate.

Atul Tiwari: So that means that whatever rate you have recognized in your P&L, the PTC is paying to you at the same rate, there is no disconnect between the two tariffs?

Pramod Menon: As far as the payment is concerned they are not paying fully on that same basis. The payment will be based on whatever will be the final pronouncement by CERC.

Atul Tiwari: So if I may ask that in this quarter what is the difference between the payment that you have got and the revenue which you have recognized?

Pramod Menon: That is to the extent of Rs.67 crores.

Atul Tiwari: And my second question is on Kutehr project, now that the EPC has been awarded. I just did a rough calculation and I don't know how accurate these are but you will need to sell power at about Rs.4.50 broadly to earn 15% ROE and you don't have the PPA right now. So do you think when the project is complete in a few years' time you will get to sell power at Rs.4.50 or do you have some PPA where visibility is high?

Sanjay Sagar: No, at the moment we don't have a PPA for this project. However, as you said by the time the project is completed after about four years odd, we expect that we would be able to recover this kind of a tariff from the market. By the time the market would have matured enough to give us this kind of a tariff. Secondly the government is also now taking some proactive steps to encourage Hydro, the primary among them being the inclusion of hydro in the renewable. So if that comes about then obviously there is very little doubt of us being able to realize these tariffs. The second move which is on the cards is they are extending the section 62 provision for the hydro to 2022. So both these steps put together are very-very big positive for the Hydro sector. I really don't see any issues in being able to sell this power at the prices that you talked of four years on.

Atul Tiwari: Sir my last question is on outlook for the merchant power sale for FY17. Do you have some contracts in place for FY17 for Vijayanagar and Ratnagiri project partial capacity which you are selling as merchant right now and how are the prices looking like?

Pramod Menon: Generally if you look at all the last few years, during this time of the year we are generally not covered. But during now and towards the middle of the first quarter of next year is when we try and tie up everything. As far as the guidance is concerned, we would be in a far better shape to give you our guidance during the next conference call as and when we have our Quarter 4 numbers. That's typically how we have been doing it in the past as well.

Moderator: Thank you. The next question is from the line of Inder from Macquarie Group. Please go ahead.

Inder: My first question is on internal long-term plan where we want to deploy capital given that we have decided to go ahead with Kutehr where at least at this moment we do not have a PPA signed. Does that mean that we will still continue to pursue other inorganic opportunities that we have been looking at or now those are off the table at least for the moment?

Sanjay Sagar: No I don't think the appetite for inorganic growth is off the table at all. We continue to look at opportunities for viable projects which we can add to our kitty and we intend to continue to do that.

Inder: My second question is on the southern region, how much of the volume that we actually sell in a day ahead kind of a market and how much of that is in this kind of bilateral contract which could be three months to one-year? So are we selling a significant amount there where we were impacted in the previous quarter given this quarter the day-ahead prices have actually come down significantly?

Sanjay Sagar: No, the sales in the day-ahead kind of market are absolutely insignificant in the Southern sector. The entire capacity is tied up in these relatively short-term contracts of three to six months or a year to year and a half.

Inder: And my final question is on this Kutehr given that you have set up a fairly ambitious four-year timeline to complete the project, if you kind of share some more details in terms of how do you plan to go ahead with financing, debt equity structure, who the contractor is and what kind of CAPEX you're likely to do over the next 12 months or maybe FY17?

Pramod Menon: See as I mentioned to you, once we have achieved the financial closure we will be able to give you the color with respect to the debt equity. But broadly what we are planning to go ahead is on the basis of 70-30 ratio - typically as infrastructure funding goes. As far as the contract is concerned we did not want to take any kind of a geological risk which is generally there in any Hydro related projects. Accordingly we are implementing this project on an EPC contract rather than a split contract basis. The contract is awarded under the ICB process itself. The lowest bidder happens to be Jaiprakash Associates Limited and which also happens to be one of the best contractors with proven track record in terms of hydro projects.

Moderator: Thank you. The next question is from the line of Arun Kumar from HSBC Securities. Please go ahead.

Arun Kumar: I just had the same question on the Kutehr, given that the prices are Rs.2,900 crores for 240 MW so that comes to roughly Rs.12 crores per megawatt. Given that recently acquired projects of hydro are around Rs.7 crores, isn't it slightly higher per megawatt project cost and if escalations included is there appetite among the DISCOMs to buy power from this kind of a project where the tariff could be significantly higher? That was my first question. Second question is what is the arrangement of Karcham Wangtoo, is it 80% through cost plus and 20% merchant or is the formula different than what I take?

Sanjay Sagar: The answer to your first question was given by me to the previous caller and while I agree with you that the cost is in the range of about Rs.12 crores per megawatt but comparing it to the recently acquired projects - one of them was built eight years back and other was built four years back - would not be fair. As Pramod just explained, the contract has been awarded through a very rigorous ICB process. So this is a very-very transparent price discovery that we have done for the cost.

Pramod Menon: Currently 12% is to be provided as free power, 70% is covered under long-term PPA and the balance is available under short-term. But after the expiry of another seven years free power increases by 6% and that will reduce the merchant availability.

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

Devam Modi: Wanted to check on whether the depreciation that we have considered in this quarter that is the entire depreciation that will be there with related to all the assets or is there some adjustment being done out of that in the off-season for hydro plant?

Pramod Menon: No, this is the depreciation on a recurring basis so there is no one-off or otherwise so across seasons it will remain the same.

Devam Modi: There is no amortization of goodwill or anything that has to happen apart from this?

Pramod Menon: No.

Devam Modi: Also if you could just let us know as to till which quarter are we currently booked in the Southern market and what is the current demand? If you could just provide some flavor on the demand in the Southern market because there has actually been a de-growth and we think it might be such because of external factors while the core demand over there should actually be very robust and there would be higher bounce back going ahead.

Pramod Menon: Currently we are covered till part of the Q1 next fiscal year. Somewhere towards the end of Q1 we will start taking the shutdown of couple of the units for our annual maintenance. As far as the environment is concerned there are few factors which have been playing out. By the end of this calendar year we should see the transmission corridor easing off to happen. We also have to wait and watch how the overall economic activity is picking up. The elasticity in this particular sector is very high. As we have seen even in the past, a small amount of demand uptick or a small amount of demand easing off has a big impact as far as the spot prices of the power is concerned. Third is the seasonal pattern. During the current fiscal with the early onset of monsoon we had a very difficult first quarter and then there was a big uptick in power demand subsequently. I think we will have to wait and watch as to how couple of these factors will play out and a similar kind of assessment is being done by the distribution utilities as well in terms of securing themselves. But more importantly as I mentioned in my opening remark, I think the platform is right for the states to now start looking at tying themselves up under the long-term PPAs. We believe that over the next 6 to 12 months' time this is something that needs to be closely watched.

Moderator: Thank you. The next question is from the line of Murtuza Arsiwalla from Kotak Securities. Please go ahead.

Murtuza Arsiwalla: Couple of questions, one is more maintenance. Your press release and the presentation for the Hydro project talks of a net generation in one place of 693 million units and another of 609. Would it be fair to assume that other one is just adjusting for the free sale of power of or which is the number we should be looking at in terms of net sales? The second is during the quarter the reported numbers suggest that the Hydro entities as a consolidated entity made a loss of about 220 million. Is it because all of the acquisition debt would be sitting in that combined entity and therefore in the seasonally weak quarter you are making a loss in that entity versus the profits in the prior period? The third question if you could throw any light on the potential acquisitions be it the Monnet one or assets on Jaiprakash as to what stage there are at in terms of evaluation?

Pramod Menon: As far as first part is concerned your analysis is absolutely right. The difference is on account of the free power. On your second question - it's primarily on account of the acquisition related funding. But let me also make it very clear, we currently have about Rs.1,500 crores of debt borrowed for the funding of the project at JSW Energy level and somewhere around the first quarter of next year this will move down into the SPV. So if you look at on a comparable basis, the loss at the HBPCL level will have to account for another Rs.35 crores which is actually sitting in JSW Energy towards the interest on Rs.1,500 crores.

Murtuza Arsiwalla: Mr. Menon if you could just clarify as to out of the total acquisition debt how much would be sitting today in the standalone entity and how much at HBPCL.

Pramod Menon: At the SPV level it is Rs.5,700 crores and at the standalone entity is about Rs.1,500 crores.

Murtuza Arsiwalla: So most of the debt is at that entity level?

Pramod Menon: Absolutely.

Murtuza Arsiwalla: The third one is on any color on the acquisition that you are looking at, the MoUs that have been signed.

Pramod Menon: We are still at the due diligence phase and we have still not concluded. The moment we have concluded we will be there in front of you.

Murtuza Arsiwalla: But any timeline for that?

Pramod Menon: Let us wait. I don't want to preempt the particular timeline.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citi Group. Please go ahead.

Atul Tiwari: I have just one more question, you just mentioned that in April you expect significant easing in transmission corridor to South India. So what exactly is driving this, which lines are getting commissioned and how much capacity it can add to the corridor if you can throw any color on that?

Pramod Menon: I’ve told at the end of this calendar year and not by April. I think the lines are clear to all of us and we expect at least some amount of easing off to happen - close to 2000 MW to start with. Now how much power the lines will bring is something I think we will have to wait and watch because the existing Sholapur line has taken a significantly longer time than what was anticipated in terms of stabilizing. So I would not want to hazard a guess on that but we are all getting prepared for some amount of easing to happen by the end of this calendar year.

Moderator: Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: The one clarification which I was seeking - in the consol account the share of loss of associate amount is zero compared to what used to be 16 crores, 8 crores. So is it because you are not making any loss with JSW Toshiba, is my understanding correct?

Pramod Menon: No, Mohit. I think if you would recall the last conference call I had mentioned that the total provision that we have already made towards the share of associate loss has already hit the total investments that we have made. So there is no further provision that we are required to make as far as the books is concerned towards the share of loss of the associates and that's the reason you will find it to be nil.

Mohit Kumar: What was the loss in the quarter on account of with JSW Toshiba?

Pramod Menon: As far as the loss is concerned, they had some losses. They are waiting to evaluate based on the insurance related claims due to the Chennai floods. So the amount of loss at that entity level, which is very broad management estimate that we are given to understand, is about Rs.18-20 crores or thereabouts.

Mohit Kumar: Rs.20 crores at the entity level, right so our shares would be around Rs.5 crores, am I right?

Pramod Menon: Yes.

Mohit Kumar: My second question pertains to Kutehr, what is the design of your Kutehr so that we can get a better sense of the cost per unit?

Pramod Menon: It's roughly 97 crore units if I'm not wrong. I'm giving a very broad number.

Mohit Kumar: How much would be the PLF - can you give a ballpark figure?

Pramod Menon: I think you can just work it out.

Mohit Kumar: Sir one question pertains to Jalipa. You have said that in Jalipa and Kapurdi even you've awarded tender for MDO. Have you already awarded a tender for MDO or how it is placed right now?

Pramod Menon: The regulator is reviewing that and only after regulatory approval we will be able to proceed on that.

Sanjay Sagar: The outcome of the tender has represented to the regulator.

Mohit Kumar: Who is doing the MDO meanwhile?

Sanjay Sagar: Our group entity is doing that, it's the existing MDO.

Moderator: Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: Can you just clarify as to what is the depreciation policy for us in terms of the Hydro project currently?

Pramod Menon: We are following depreciation policy wherein we are depreciating the asset over the unexpired life of the project. So in case of Baspa whatever is the unexpired period, 27 or 28 years, we are depreciating the entire 90% of the value and similarly in case of Karcham it would be for the unexpired period or the PPA which is about 34 or 35 years.

Rakesh Vyas: And the tariff per se is based on the CERC depreciation rate, so there will be a difference in this depreciation that gets booked in the revenue versus the P&L?

Pramod Menon: Absolutely right.

Rakesh Vyas: I'm just trying to understand whether the policy has got changed or not that was the point. Secondly in the second quarter it was highlighted that the long-term is PPA to the extent of 504 MW so has the last party agreed to buy under the CERC tariff as well?

Pramod Menon: They have said that once the CERC tariff comes then we will buy. So we will have to wait for the CERC tariff to come out.

Rakesh Vyas: So today it's just 504 under long-term PPA?

Pramod Menon: Absolutely right.

Rakesh Vyas: When the NCD moves from JSW Energy to the SPV, is there likely to be a change in the interest cost?

Pramod Menon: At this point in time there is no change in interest cost. We can't predict how it will move but as of now there is no change to the terms as far as the NCDs are concerned.

Rakesh Vyas: Can you just give some breakup on the high and low GCV coal, both at Vijayanagar and Ratnagiri that you normally provide?

Pramod Menon: Vijayanagar was almost 100% HCV and even Ratnagiri close to 90% was on HCV South African coal.

Moderator: Thank you. Ladies and gentlemen due to time constraint this will be our last question. That is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: You mentioned there is a Barmer plant true-up that has happened in this quarter. So is there any one-off in the O&M charges or this is a recurring O&M charge that we are seeing right now?

Pramod Menon: No, whatever efficiencies that we have been getting we are just truing up for all those related aspects as required. So we are slightly being conservative as far as our revenue recognition policy is concerned.

Sanjay Sagar: To further clarify we didn't say the true-up has happened, we said we have provided for future truing up. No true-up has happened so far.

Pramod Menon: So on the anticipation of the true-up we are making slightly conservative estimate as far as revenue is concerned. Ahead of time generally most of the other companies provide for such a provision only after the actual order from the regulator comes.

Abhishek Puri: So which means that is there any prior quarter item here or this is only for the current quarter? The provision that we would have done or the accounting policy changes from here 3rd Quarter.

Pramod Menon: We have provided for couple of items for the earlier two quarters but related to the current financial year itself.

Abhishek Puri: But would it be a significant number, can you share the number with us?

Pramod Menon: It's not very significant.

Abhishek Puri: On the tax side you mentioned for full-year it will be 27% to 28%, right now for this quarter it is 36%.

Pramod Menon: This quarter yes, to that same extent. But this I would say is the impact of the Hydro related business because during this and in next quarter again you will have loss because of lower PLF there because these are two lean seasons. It will have the marginal impact but in our view on a consol basis it will be around 28% or thereabouts.

Abhishek Puri: Why was it higher in this current quarter I couldn't get it, so 36% because I think both those projects are on 80-IA benefit?

Pramod Menon: It may be on 80-IA benefit, there are two-three things which affect it. We had the change in accounting policy last year where the depreciation rate was slightly tweaked because of which the deferred tax provision is increasing. So there has been deferred tax provision which has come through and also on account of an effective tax rate method which we have to deploy. So in certain quarter we may not have the profit but we are required to make provision for taxation under effective tax method. So that's what I'm saying that it will even out as far as the whole year is concerned.

Abhishek Puri: Lastly, if there is reduction from JSW Steel in terms of demand, would you still be paid the fixed charges as per the CERC formula?

Pramod Menon: Yes.

Abhishek Puri: And what is the cash on balance sheet if I may ask?

Pramod Menon: It was Rs.386 crores.

Abhishek Puri: This is including the short-term investments.

Pramod Menon: Yes.

Moderator: Thank you. Ladies and gentleman that was the last question. I would now like to hand the floor over to Mr. Arun Kumar for closing comments.

Arun Kumar: Thanks everybody who participated and thanks to the management.

Moderator: Ladies and gentlemen on behalf of HSBC Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.