



“JSW Energy Limited Q3 FY2017 Earnings Conference
Call”

January 23, 2017



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Moderator: Ladies and gentlemen, good day and welcome to JSW Energy Q3 FY2017 Results Conference Call hosted by Motilal Oswal Securities. As a reminder all the 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. Dhruv Muchhal from Motilal Oswal Securities. Thank you and over to you, Sir!

Dhruv Muchhal: Hello, everyone. On behalf of Motilal Oswal, I welcome you all to JSW Energy's 3Q FY2017 Earnings Conference Call. At the outset I would like to thank the management for giving us this opportunity. I would hand over to Mr. Pritesh Vinay, Head of Investor Relations at JSW. Over to you, Pritesh!

Pritesh Vinay: Thank you, Dhruv. Thank you very much. A very good afternoon to all the participants who have dialed in to the earnings call of JSW Energy's third quarter fiscal 2017 results. We have with us today the management team of JSW Energy represented by Mr. Sanjay Sagar, the Joint Managing Director and CEO, Mr. Pramod Menon, the Director, Finance and Mr. Jyoti Kumar Agarwal, who has taken over as the CFO of the company. We will keep the format usual, we will start with a few minutes of opening remarks from the management side and then we'll open it up for Q&A. So I will now hand over the floor to Pramod for opening remarks.

Pramod Menon: Good evening, everyone. Welcome you to the third quarter conference call on the results of JSW Energy Limited. It has been a quarter where we have seen the challenges coming to the fore as far as the power sector is concerned, primarily driven by the poor offtake due to poor power demand, which has been impacting the sector for quite a while. To a large extent, JSW Energy has been able to insulate itself as far as the downturn was concerned. However, the pressure that we have seen due to the oversupply scenario driven by a lack of demand has impacted this particular quarter's results for JSW Energy where we have seen the net generation going down by 23% compared to the corresponding quarter of the previous year. We also had a slight issue with one of our units at Ratnagiri, where we had a major turbine related technical problem, which is under resolution and we expect that to come on board by the later half of this particular quarter.

We had a mixed kind of a performance across the plants. The units which have long-term PPAs have done fairly well. And it's primarily the capacity, which was not fully tied up and where we were selling in the short-term or in the merchant market has got impacted. This resulted into a total generation of 4.6 billion units during the quarter, of which about 15% of



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the volume got sold under the merchant and 85% of the volume was under the long term PPAs.

And despite being a challenging quarter, the Company has strived to ensure that we are able to get whatever demand is feasible during the course of the last quarter. You are aware, at the beginning of this particular quarter, we have been able to secure an order for supply of 650-megawatt of power in a short-term tender up to May of 2017. So as we move forward, we believe we will see improvements as far as the fourth quarter results are concerned. At the same time, during the last quarter besides the challenges of the low demand has also impacted the prices and we have seen moderation in the selling rates, where the average realization during the last quarter happened to be sub-4 at Rs.3.98 per unit. And this, coupled with the increase in the fuel cost, primarily on account of increase in coal index had a significant impact on the fuel cost; even though the foreign exchange movement was benign.

So all in all, we had a lower generation with a slightly lower realization and higher cost, which have resulted in contraction of the EBITDA margins. So despite having a turnover of Rs.1955 Crores for the quarter, the EBITDA margins shrunk to about 36% compared to 45% in the corresponding quarter of the previous year and we had an EBITDA of Rs.708 Crores.

During the quarter, the Company has also tried to refinance some of the debt to take advantage of the lower interest costs, and these funds have been utilized for repaying part of its existing debt, to meet certain amount of capex, and also the working capital requirements and long-term advances. This is a program that we have just started with and you will see us trying to leverage the lower interest cost, which will help us to improve our bottom line as we go forward.

The Company had a profit after tax of Rs.21 Crores during the quarter and Rs.605 Crores for the period of nine months ending December 31, 2016. The networth at the end of the period stood at Rs.10,205 Crores, with a net debt to equity at 1.38 times and the weighted average cost of debt has slightly come down to about 10.26%. There has not been any progress on Kutehr. As we had mentioned in the last quarter, it continues to be on hold and there are no fresh capex or investments currently being thought out other than what has already been informed. With this, I will now leave the floor open for questions on the results. Thank you.

Moderator:

Thank you very much. We will now begin with the question-and-answer session. We take our first question from the line of Abhishek Puri from Deutsche Bank. Please go ahead.



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Abhishek Puri: Yes, good evening, Sir, and thank you for the opportunity. Sir, two questions. If you can tell us a bit more on the demand/supply scenario specifically for South India. We heard the Karnataka Energy Minister talking about some new supplies also coming through: long-term power supplies. So what is your expectation there? And secondly for the standalone entity, the tariffs have kind of remained soft despite the fact that fuel costs have gone up. So this arrangement with JSW Ispat is still continuing at the same level and what is the offtake going there?

Sanjay Sagar: Abhishek, as far as the first part of your question is concerned, well we all know that the tariffs in the Southern region have also been fairly muted and as well as the demand, and I expect that at least in the near term, they will continue to remain muted. However, I am not aware of any long-term supplies coming into Karnataka other than probably the Kudgi unit of NTPC, but that is very, very high priced power. So I really do not see that distorting the market in any case. As far as the second part of your question is concerned, yes, our PPA with JSW Steel Dolvi continues to be at the same level as it was. Pramod would like to add something.

Pramod Menon: The PPA from Dolvi has a two-part tariff but the enhanced 'long-term' supply in this quarter has happened at Vijayanagar because one of the units of 300 megawatt capacity of JSW Steel was not operational and that was sale under the PPA to JSW Steel at Vijayanagar. The capital cost at Vijayanagar is slightly lower. Since this is a cost plus kind of a PPA, it may look to be soft from a pure q/q comparison perspective.

Abhishek Puri: Understood. That is helpful, Sir. Lastly, on the fuel cost side, have we taken the entire hit or is there any more hit pending if it remains between \$85 to \$90 where it is right now?

Pramod Menon: As far as the imports are concerned, we continue to have that same policy. However, during the quarter, since the operations at Vijayanagar were impacted, we had some lower cost inventory, which I would say more or less has got exhausted.

Abhishek Puri: Thank you so much. And all the very best Sir.

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

Atul Tiwari: Thanks for taking my question. Sir, question is on the Bina acquisition, a few days ago we heard the news that probably the seller was trying to pull out of the contract because the valuations are currently too low and lenders have also approved it. So is the acquisition on?



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Sanjay Sagar: Well, Atul, as far as Bina is concerned, we have an SPA, binding SPA with them, which specifies a longstop date of May 17. As we speak, we have not heard either from the seller or from the banks anything to the contrary, which would lead us to believe that the deal will not happen. Having said that, we have also been hearing about some kind of a restructuring package for JPVL as a whole, which is probably under consideration of their lenders. But we do not have any official communication either from the sellers or from the bankers. So as far as we are concerned, the SPA is very much valid as of today.

Atul Tiwari: Okay. And Sir, if any of the parties involved wants to pull out of the SPA, what is the kind of penalty built in?

Sanjay Sagar: Well, there are all kinds of legal provisions. It is not always either a fee or penalty, but it could be a combination of fee, penalty and legal provisions.

Atul Tiwari: Okay. Sir, any more colour and then what kind if it is beyond fee and penalty, if the deal happens?

Sanjay Sagar: Sorry, I did not catch the last part of your question.

Atul Tiwari: No sir. As you were saying it can be fee and penalty and some other legal provisions as well. If any, if the seller wants to pull out what else can happen with besides the fee or penalty?

Sanjay Sagar: Well, I do not think I can go into the specific provisions of an SPA with you, Atul. We are bound by our confidentiality clause.

Atul Tiwari: No issue Sir. Thanks a lot.

Moderator: Thank you. We take the next question from the line of Rahul Modi from Antique Stock Broking. Please go ahead.

Rahul Modi: Good afternoon Sir. Thanks for the opportunity. Sir, can you just specify in terms of whether the Karnataka PPA has commenced and some colour on the tariffs because the energy minister was indicating the tariffs are quite low, but if you can throw some colour on that?

Sanjay Sagar: Rahul, as far as the PPA is concerned, yes, we have commenced supplies and as far as the tariff is concerned, I think it is available in public domain because it was approved by the



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Regulatory Commission, so irrespective of what the minister says, you can always access the website of the Regulatory Commission and find out for yourself.

Rahul Modi: Surely. Sir just one more follow-up; Sir in the PPT, we mentioned the long-term sale of power. It has increased by around close to around 18% to 20%. Now sir, where is the increased supply?

Sanjay Sagar: As Pramod just explained to you, during the last quarter there was enhanced supply to JSW Steel Vijayanagar because one of their captive units was under elongated shutdown.

Rahul Modi: Sure. So we are categorizing that within the PPA?

Sanjay Sagar: Yes.

Rahul Modi: And just finally Sir, if you can help me, see on the coal costs, means we have seen that the South African coal prices have corrected from the November peak. So Sir, what is the lead lag that we are looking at?

Pramod Menon: Yes, Rahul, as, I think I mentioned in one of the earlier queries itself; it continues to be about 45 days to 60 days. However, during the course of this quarter, we had some carrying inventory at Vijayanagar because of low PLF and that inventory has more or less gone off. So you will continue to see the early trajectory of about 45 days to 60 days.

Rahul Modi: Sure. Okay, thank you so much, for your answer Sir.

Moderator: Thank you. We take the next question from the line of Deepak Agarwala from Elara Capital. Please go ahead.

Deepak Agarwal: Good afternoon Sir. Sir my first question is, can you highlight on Barmer, we have sustained a high availability and the revenues are also up, any reason why there is a fall in the EBITDA, is it because of the higher fuel cost, which we are not able to pass on?

Sanjay Sagar: No, there is nothing in the fuel cost, which is not a pass-through and probably on a comparative basis you see a slight fall in the EBITDA, because the capital cost was finalized towards the end of the last fiscal, so that is the reason why you see it.

Deepak Agarwal: Okay. So, approved level since it was lower than the actual, that is why their impact, same is reflected in the net profit as well, right.



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- Sanjay Sagar:** Yes.
- Deepak Agarwal:** Secondly on hydro assets, now this is anyway, this is the lean season but we had a fairly good EBITDA, but I assume the debt level was almost the same, in fact would have repaid some amount of debt, so why there is a higher loss in the hydro plant?
- Pramod Menon:** I would say that the losses as compared to the corresponding quarter of the previous year, is lower significantly primarily on account of tax rated impact, and also on account of lower interest costs. If you were to look at the numbers correctly, you will see that the performance in this quarter is better than the earlier quarter.
- Deepak Agarwal:** Actually we are seeing Rs.26 Crores loss versus the last time it is Rs.22 Crores loss?
- Sanjay Sagar:** No, last year it was Rs.113 Crores loss.
- Pramod Menon:** You can see the presentation, which is there on the website.
- Deepak Agarwal:** Sure, Sir. And my last question, if you can just comment on how has been change in the receivables versus the September quarter and because we have heard that because of the demonetization several utilities end up getting lot of their past dues. So how do you see your receivable situation as on date?
- Sanjay Sagar:** Well, the utilities may have got a lot of money but since none of them is paying us in cash, so the receivables continue to remain at the same level. There is not a significant improvement if that is what you're looking at.
- Deepak Agarwal:** Okay. Any update on the Karcham-Wangtoo 200 megawatt long-term sale?
- Sanjay Sagar:** No, we are just waiting for the CERC tariff to come.
- Deepak Agarwal:** Taking quite a bit some time actually.
- Sanjay Sagar:** Yes, I know.
- Deepak Agarwal:** Okay, fine. Thanks a lot Sir.
- Moderator:** Thank you. We take the next question from the line of Anirudh Gangahar from Nomura. Please go ahead.



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Anirudh Gangahar: Thank you for the opportunity, Sir. Most questions answered, just one interesting point the API chart that you show, the table that you show in the presentation is up to December it shows 123, would you know where January has ended or where it is right now, is it still trending down? I am just wondering whether the worst is behind us.

Sanjay Sagar: Well, January, Anirudh has still not ended. So I possibly cannot predict where it is going to end up at the end of January but currently it would be somewhere between 88 and 89.

Anirudh Gangahar: Okay. And the second question was in terms of Transco profitability, there has been significant dip this quarter, anything, I mean one-offs over there in the PAT number?

Sanjay Sagar: There was a one-off last year, not this time.

Anirudh Gangahar: Okay but sequentially, we have seen profit decline.

Sanjay Sagar: Just a moment. I stand corrected...

Pramod Menon: There is one one-off in this particular quarter. We have made a truing up provision on account of reduction in the capital cost, because one of the project creditor's settlement has been done at a lower amount than what was envisaged. So, we have had a one-time entry with respect to the truing up provision, which can happen on account of this reduction in the capital cost.

Anirudh Gangahar: I see. But the capital costs are not reduced as far as the regulatory returns are concerned so far. How would that impact the regulatory?

Pramod Menon: No, what is happening is that when your capital cost goes down, your tariff gets corrected. So it may impact our cash flow in FY2018/2019; but from a conservative perspective, we have taken the impact now.

Anirudh Gangahar: Understood. Thank you very much, Sir.

Moderator: Thank you. We take the next question from the line of Murtuza Arsiwala from Kotak Securities. Please go ahead.

Murtuza Arsiwala: Sir, most of my questions have been answered. Just two things, one is, the Barmer plant, we had gone in appeal where does that stand in terms of the project costs etc.? And the second is, how does Vijayanagar currently stand in terms of utilizations, etc., given you have mentioned that the supplies have started there in Karnataka?



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Sanjay Sagar: Well, as far as the Barmer appeal is concerned, the appeal has been admitted, we are now waiting for it to get listed. And as far as Vijayanagar is concerned, we have commenced supply on the 650 megawatt PPA and that accordingly getting reflected in the PLF.

Murtuza Arsiwala: Okay, thank you, so much, Sir.

Moderator: Thank you. We take the next question from the line of Inderjeet Singh Bhatia from Macquarie. Please go ahead.

Inderjeet Singh Bhatia: Thanks, gentlemen for the opportunity. My first question is on the debt number that we have, a total net debt of around Rs.14000 Crores, is it possible to break this debt at a plant level, which plant carries how much debt?

Pramod Menon: Inderjeet, we have been giving consolidated numbers, so please have that.

Inderjeet Singh Bhatia: Okay. The second thing is, I joined the call late, maybe pardon me if this has been answered. You just talked about in the previous question or before about the reduction in capital cost, that is related to which plant? And how much is that reduction?

Pramod Menon: The transmission project and the impact is about Rs.5 Crores.

Inderjeet Singh Bhatia: Okay. And last question from my side. Is there any upcoming schedule that we have in terms of maintenance at any of our plants?

Pramod Menon: Not, in this particular quarter.

Sanjay Sagar: Not, during this quarter.

Inderjeet Singh Bhatia: Okay, and maybe in early part of next FY2018?

Sanjay Sagar: Normally we do not take up our maintenance in the first quarter of any year.

Inderjeet Singh Bhatia: Okay, thank you. Thanks a lot.

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

Mohit Kumar: Good afternoon Sir. Sir my question pertains to Karnataka PPA, which you had signed. Sir that bid was for 1200 megawatt and we had won 750 megawatt, how come we ended up



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signing only 650 megawatt? And second are we scheduling the balance power to JSW Steel in this quarter?

Sanjay Sagar: Well, we ended up signing 650 megawatt, because that is the quantum of power, which Karnataka initially wanted and to answer the second part of your question, we are not scheduling that power to JSW Steel and Karnataka has still kept our bid open because they expect to be taking the balance power from us anytime soon.

Mohit Kumar: Yes, but is it true that the offtake, which you can see from the RLDC website, the offtake is around 350 megawatt to 400 megawatt.

Sanjay Sagar: Yes, for the last five or six days it has been days it has been so because they have got a sudden gust of wind, which has increased their quantum of wind power in Karnataka

Mohit Kumar: Sir my second question is, what is the status of PPA with Uttar Pradesh, for Ratnagiri power plant, is there any update?

Sanjay Sagar: Well, your guess is as good as mine. Because now with the code of conduct being in place, I do not think any PPAs will get signed till the elections get over.

Mohit Kumar: At least with the LOI?

Sanjay Sagar: Sorry.

Mohit Kumar: Did they issue the LOI to you?

Sanjay Sagar: No they did not – to the best of my knowledge they did not issue the LOI to anyone.

Mohit Kumar: Okay, Sir, last question. Are we booking Karcham-Wangtoo to tariff at provisional basis right now?

Sanjay Sagar: Yes.

Mohit Kumar: Okay, Sir. Thank you Sir. That is it from my side.

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

Devam Modi: Sir, we have seen a slight rise in the net debt from September 30 to December 30. Would this be mainly due to stress in working capital?



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- Sanjay Sagar:** Excuse me you are not clearly audible, are you speaking from a speakerphone?
- Devam Modi:** Sir no, what I am saying is, we have seen a rise in the net debt from in the last quarter, would this be mainly due to some stress in working capital?
- Pramod Menon:** As I mentioned to you, we have had some borrowings primarily to refinance, as also to meet the capex and certain long-term advances and working capital requirements.
- Devam Modi:** Sir the weighted average interest cost seems to have reduced by around 11 BPS, so this would have been driven more by reduction in base rates or refinancing, and do we expect more reduction because typically the base rates will be coming down further.
- Pramod Menon:** Yes. As far as the base rates for long-term loans are concerned, they will get reset at annual rates. So I would say, it does not capture the major reductions in the base rates, it is more on the refinancing side that the impact that you are currently seeing.
- Devam Modi:** Okay, and Sir from the data that we can see on the Ratnagiri for January month, there is still a much lower PLF you are struggling at and also two units clearly are impacted. So what is the status over there? I mean, when those two units will be up and what kind of agreements and all do we have in place to see a better PLF this quarter?
- Sanjay Sagar:** Well, as far as one of those units is concerned, it is tied up under a long-term PPA, but unfortunately as Pramod mentioned in his opening remarks, we had a technical glitch there and we expect the unit to come back on stream by the end of February or early March. And as far as the other unit is concerned that we are struggling with the sale of power and so I really cannot predict what time or when we will be able to get enough demand to be able to start that unit.
- Devam Modi:** Sure, Sir. That is it from my side. Thanks.
- Moderator:** Thank you. We take the next question from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.
- Dhruv Muchhal:** Thanks. Sir just wanted to understand we were also a party to the change in law thing with respect to Indonesia. I think we all like you to file a revise petition. So if you can provide any color on what is the amount you are looking at based on the CERC order, which has come along so anything on that?



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Sanjay Sagar: The CERC orders that you are referring to is probably the Adani-Tata order. I do not think that order has attained finality as yet because that has been submitted to the Supreme Court for their stamp of approval and all other cases in the country, which have asked for compensatory tariff on account of force majeure or change in law or whatever, have been sort of put on hold till this matter gets decided. So we are also waiting for the Supreme Court to give its final stamp of approval before we pick up the calculators and start calculating how much money we will make.

Dhruv Muchhal: Okay, fine. Yes, thanks.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Pritesh, you may go ahead, Sir.

Pritesh Vinay: Thank you, everyone. Mr. Sagar would just like to add a few words towards the closing comments.

Sanjay Sagar: Thank you all for having participated in the call. Just a couple of remarks, I would like to make, one is that even though we have finally been singed by the low demand scenario, which is prevailing in the country and which has been sort of bothering our peers for a fairly long time, but given the kind of mix that we have between long-term and short-term power and our exposure to the merchant market, we believe that the company is fairly well placed to be able to sort of keep its balance sheet healthy for some time. And secondly, the company also believes that this current scenario where despite a huge demand, latent demand, in the system there is no purchase of power, cannot possibly continue given India's ambitions for fast-tracking the economy and so in the medium term, I think we will see a huge revival of demand as and when the economy really gets kick-started. Simultaneously, the Company is also sort of making all efforts to take advantage of the low interest rate scenario and to bring down our finance costs by a constant process of refinancing.

Finally, I would like to share with you all that Pramod has decided to move on and he will be relinquishing charge as the Director, Finance and CFO of the company on January 31. Pramod is being replaced by Jyoti Agarwal, who has been with the group for some time now and Jyoti will be taking over as the CFO effective February 1, so I am sure you guys will be interacting more and more with Jyoti and you will get to know him better in the near future. Thank you. Thank you once again.

Moderator: Thank you very much. On behalf of Motilal Oswal Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.