"JSW Energy Q1 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the JSW Energy Q1 FY21 Earnings Conference Call hosted by ICICI Securities 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. Rahul Modi from ICICI Securities Limited. Thank you, and over to you sir.

Rahul Modi: Thank you, Faizan. Good evening, ladies and gentlemen. On behalf of ICICI Securities, I welcome you all for the JSW Energy Q1 FY21 Earnings Conference Call. From the company, we have Mr. Pritesh Vinay – Vice President, Group Investor Relations and Capital Markets. 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, Rahul. A very good evening to everyone. On behalf of JSW Energy, we welcome you to the results earnings conference call for the first quarter results. I'm sure you had the chance to look at the results, the press release and the presentation which is already uploaded on the website and sent to the stock exchanges. We have with us today the management team represented by Mr. Prashant Jain – the Joint Managing Director and CEO of JSW Energy; and Mr. Jyoti Kumar Agarwal – Director (Finance). We will start with a few minutes of opening remarks by Prashant, and we can then open the floor for Q&A. With that, over to Prashant.

Prashant Jain: Thank you, Pritesh. Good evening, ladies and gentlemen. During the quarter, we saw the power demand contracted by 16% because of lockdown, which was announced by the government. And slowly, it was easing up, and that's what reflected in the monthly trend in power demand also. In the month of April, the power demand contracted by 23%, which moderated to 15% contraction in the month of May. And in June, it was negative 10%. In July, till date, we have seen the provisional data is talking about negative growth of 3.5%. This trend demonstrates that the economy is coming back and lockdown is easing up and we are expecting that by October, we may be seeing a positive growth in power demand. As of now, we are experiencing that only the restaurant, the commercial malls, theaters and gyms, these have not yet come back. But with the issuance of the new guidelines, we believe that this demand is also going to come back, and we will be seeing a positive to neutral demand growth in the month of October.

All India basis, on generation side also, there was 16% contraction. But the contraction was seen in thermal space, which was negative 22.8% whereas all other segments have shown positive growth because they enjoy the must run status. The all India thermal PLF in the quarter was also 46.6% as compared to the previous year of 62.8%, but this also has seen the moderation month-on-month. In the month of April, the thermal PLF has seen a low of 42.4%, which went up to 47.9% in May. And in June, it improved to 49.5%. And in July also, it has seen the further improvement. So as the demand pickup takes place, the thermal PLF is also going to see a better trend. Coming to the company, the total generation also reflected the power demand contraction of 16%. So our generation at 4.9 billion units was down by 16% year-on-year. Our thermal generation was down by 18% and hydro generation was down by 13%, primarily because of lower water availability. If you see the breakup of our sales, our short-term sales was down by 83%, and our long-term sales was down only 6%. But the interesting fact what if you see during the lockdown, which demonstrates the kind of the quality of our earnings and PPAs, our DISCOM sales had gone up during the quarter by 8%, whereas the group captive sales was down by 25%.

If we come to the revenue side, our revenue was down 23% this quarter, but if you remove the one-off, which for the year before, then the revenue was also like-to-like basis was down only 16%. But our EBITDA was down 4%, and this is what shows the resilience due to the long-term PPAs and less dependence on the merchant power. As, I mentioned last quarter also that 95% of our EBITDA is totally from the long-term PPA. Only 5% of our EBITDA is dependent on merchant power sales. That's why our EBITDA was down only negative 4%. And of course, our O&M cost also during the quarter was lower, as we have been reducing our O&M cost year-on-year basis. This year also our O&M cost was lower and we expect to continue that journey going forward.

In line with our deleveraging of our balance sheet, our interest cost has been going down. And this quarter also it was down 11%, and our PBT was lower by 1% year-on-year. And if you look at the net debt of the company, it was down by Rs 450 crores at Rs 8,493 crores at the end of the quarter. Our deleveraging is continuing and then as we are speaking, our net debt is lower than Rs 8,000 crores. So that is what also reflects that we have been improving our receivable position as well as we are deleveraging our balance sheet. Our weighted average debt cost was 8.44% for the quarter, which has been benefited by reduction in the MCLR and reset of our debt. At the end of the quarter, we have ended our net debt to equity at 0.7 times versus 0.77 times in the month of March. And our net debt to EBITDA has gone down to 2.65 as compared to 2.76 in March.

As regards to receivable, as I mentioned, that our receivable situation has been improving. As we are speaking, our receivable is down 22% as compared to June 2019 receivable, and 20% lower than the March receivable. And we expect that this trajectory will be further improving as and when the disbursement of the Rs 90,000 crores is done by PFC/REC to the distribution company. And this will also demonstrate the quality of our PPA, as we have been harping upon that our power is low power cost as well as it is in the bottom quartile for the respective DISCOM. So two qualitative indicators, as I mentioned, that during the pandemic situation also our power scheduling had gone up by 8% last quarter and our receivable situation has improved.

As regards to GMR Kamalanga transaction, both the companies have mutually agreed to terminate the SPA with no cost to either party. Ind-Barath is still in process before NCLT. The progress has been pretty slow because of the COVID-19. We will continue to update as the progress takes place. There is another development, we have come out as a comprehensive sustainability policy in our initiatives to improve our compliance under ESG. JSW Energy has come out new 16 policies and specific targets for climate change, water conservation, waste management, air emission for 2030. And also, we have pledged to achieve a carbon neutrality by 2050. With this, I conclude my opening remarks and open the forum for the question and answer. Thank you.

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

Mohit Kumar: Yes. Sir, two questions primarily. First, on.

Moderator: As there is no response from the current participant, I have muted the line. We'll take the next question from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Yes. You mentioned that your receivables were down about 20%. Could you give us a sense of what they are at as a percentage of revenue. And also, I noticed on the footnote, you said that some of the customers were trying to declare force majeure, but the company leaned on the Ministry of Power's guidance that force majeure is not applicable. Now obviously, we know that the Ministry of Power would very much like DISCOMs to be responsible and honor their PPAs, but the fiscal situation of states from the financial situation of DISCOMs is such that very often the intentions of the Ministry of Power are not translated into the reality of people dealing with DISCOMs. What percentage of the revenue we booked to this quarter is sort of disputed in this manner where we're billing them, but the customer is saying this is force majeure, so I don't want to pay?

Prashant Jain: Thank you for your question. We do not have any disputed billing during the quarter or the previous quarters with respect to the COVID-19. And it was a standard notice, which was sent by various DISCOMs to various generators. We had also received one or two such notices and for which we have replied based on various legal position. However, in due course of time, each distribution companies have started making payment to us without any dispute to the billing. And that's what it has reflected and just to give you the color also, during the quarter whatever we have done the billing, we have received more than Rs 304 or 350 crores more than what we have billed. So that has reduced the past overdues only and so there is no dispute with regards to any bills. And in terms of the number of days or as a percentage of revenue, Jyoti?

Jyoti Kumar Agarwal: So the debtors at current point of time would be sub 20% of our annualized revenues.

Prashant Jain: And debtors include lot of amount which is not due.

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

Mohit Kumar: Sir, two questions sir. First is on Ind-Barath. Sir, what is the time line expected to the acquisition to be complete and are there any hurdles for this transaction to not go through?

Prashant Jain: Thank you, Mohit. Given the COVID-19 situation, the hearings have not been taking place. So ideally, in past we have been experiencing that typically at NCLT, it takes 180 days to 365 days to complete the proceedings and then settle the issue. But because of COVID-19, this has become a challenge. So, I cannot give any kind of a color that what could be the time line. Earlier, we were thinking that there was a visibility to conclude this approval process by October. But given the COVID-19 situation, I don't have that kind of a color at this point of time. But it will be certainly get delayed. So probably end of this financial year or after that.

Mohit Kumar: Okay, sir. Secondly sir, how do you say demand has panned out in July for our power plants. Have the PLFs improved over the, especially in Vijayanagar?

Prashant Jain: So, it has been reflecting the country wide demand. So basically, as I have been mentioning that our contraction in generation was primarily from the group captive customers because of the lockdown, they had to stop their operations, and then they are now back to normal. However, PLF to distribution companies there is a growth and in case of hydro also, the water flow has been good in the current quarter, in the month of July and then it is showing an improving trend as compared to the last year. So, the current quarter the generation should be better. In July also, as I mentioned the contraction has been moderated for the country and the similar kind of a situation will be happening for JSW Energy.

Mohit Kumar: Sir, lastly on the cash flow uses, how is given that we don't have any requirement to use our cash for any of the projects for FY21, especially. What you would do with this surplus cash in this particular year?

Prashant Jain: So typically we have been maintaining a policy of either for repayment of debt or sharing it with the shareholders as a dividend. So that's what we have been maintaining as our policy. So we will continue to follow that.

Mohit Kumar: Is there any equity requirement anywhere for this particular financial year?

Jyoti Kumar Agarwal: So there could be a requirement depending upon how we ramp up the Kuther project, but it wouldn't be a meaningful one. We obviously have a plan to venture into the renewable space, but it's a bit early right now. I don't see a real capital outlay on that front in this year. And obviously, if Ind-Barath happens sooner than what current visibility, then there will be a requirement there. Other than these, I don't see any equity requirement this year. There's going to be some CAPEX that we will have to do every year as maintenance CAPEX. Beyond that, there's not too much of a funding requirement here.

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

Abhishek Puri: Hi Sir, congrats on the good set of results despite the challenging environment. We are, perplexed to see on the O&M side, how you have been able to manage and cut cost so significantly. So from Rs 170 odd crores last year or maybe Rs 155 crores as of Q4, it's brought down to Rs 85 crores. So can you spell out what has led to that reduction?

Prashant Jain: Probably, there are quarter-on-quarter comparison is not right. So we have been reducing our O&M cost. It is a single digit kind of a reduction, which is acceptable kind of a number. So we have been taking various kinds of measures to improve our efficiencies. I can say that our heat rates are consistently improving, fuel efficiencies have been consistently going up, auxiliary power consumption have been going down. And on manpower productivity index, also, we have been improving and we have been undertaking various digital initiatives. So last three years, we have reduced our O&M cost on an absolute basis by 15-15.5%. And this year also you can reasonably expect that it can be 4 to 6% kind of the reduction in the O&M cost as a whole. But this trend may not continue because last year, there may be some one-off or some particular shutdown because of which the CAPEX or the O&M cost could be higher in a particular quarter. But year-on-year, yes it will be a lower trajectory. And we are the lowest cost, O&M cost power producers in the country and we take pride in that. And then we believe that we will further reduce it and optimize it.

Abhishek Puri: Sir, that is appreciated, the initiatives. What I'm trying to understand is this Rs 85 crores is like lowest since 2011 in any of the quarters. And post 2011, you have added many assets as well, including the acquisition of the hydro asset. So is there any one off component or should we take this number as a going concern or some costs have been saved due to the lockdown, people are not traveling or some maintenance has been pushed back or is there anything to that effect also we should take as one off?

Jyoti Kumar Agarwal: Jyoti here. Prashant did allude to it. It's a combination of three things. One is overall optimization of the cost budget and post COVID-19, we sort of zero based the cost budget and worked with the team to sort of see what the new normal cost base would be and carrying on some of the optimization efforts over the last two, three years a lot of the benefits you are seeing is because of that. The second component is not a large component, but there is some component of expenditure in the O&M, which has been deferred because of the COVID-19 situation we have not been able to implement. For example, CSR expenditure typically, we will do a certain amount of CSR expenditure in the first quarter. This year, because of the situation, we could not do. This is also a component, not a large one. Third, there is a little bit of a one off. In the first quarter of the last year, there was about a Rs 25 crores one off O&M expenditure, which we have not done this particular quarter and we'll not do going forward. So that's a permanent sort of a reduction. So combination of these three things is what we're seeing as O&M expenditure. Also, you must appreciate that this time we have not done, we've not been able to sell too much power on the short term market and there is a POC component, which is taken as part of O&M, the transmission charges. So point of connect charges. So those are not coming in because we have not sold on the exchange. So some of it also explains it. Plus, I would encourage you to take all the non fuel cost items as one category because the way we look at O&M is all of it is combined in one category. And then you see that it's consolidated level. The reduction is approximately about Rs 50 crores, 48 to be exact. And roughly half of it, I would say is because of permanent measures that we have taken over the years and will be sustaining going forward.

Abhishek Puri: Okay, great. That's helpful to understand. Sir, secondly, we are at close to 90% PPA now. What part is remaining and what would be the path to say 100% PPA, especially with these JSW Steel expansions coming up over this year and next year. If you can spell out that, it will be great to understand and model it.

Prashant Jain: So total capacity wise, 83% is the PPA tied up and 17% is the open capacity. However, as we have been mentioning that our 95% EBITDA is coming primarily from the long-term PPA and only 5% is coming from the merchant, so that's how you need to look at it. And we have been continuously looking at how do we improve our PPA basket. But during the current financial year, I don't see a visibility that we will be able to improve this basket. But yes, next year and going forward, certainly we will strive to improve PPA portfolio. So we can expect that in next two to three years' time frame, we will try to tie up the entire capacity, which is available because some of it will get tied up with the increase in the power requirement by our group company as and when their extension projects are getting completed. And some of it will be through some new hybrid tenders which are being planned, and we believe that we should be able to participate in those tenders. And if there are the competitive tariffs, then we will be able to certainly tie up in a thermal and renewable hybrid tender as and when that is done because recently government of, recently SECI has announced that 5,000 megawatt thermal renewable RTC tender. And if that materializes probability are very high that we could secure some capacity over there. So in over a period of two, three years' time frame, there is certainly a visibility to tie up that balance 17%.

Abhishek Puri: Right. Do we have a plan in place for this because our current projects are high cost ones. The variable cost is high given that it is far away from the port and using imported coal. So Vijayanagar is the only one where we have a bigger capacity untied. So, when we participate in renewable tender, do we have a game plan in place. How do we reduce cost, can we get domestic linkage to reduce it or how do we do that?

Prashant Jain: Given the kind of the competitiveness, which renewable power is offering and also the oil prices environment, it is being reflected the energy prices from the thermal coal is also moderating continuously and then imported coal is also as competitive as domestic coal for a landlocked power plant situated in Karnataka or Maharashtra. So we feel that there is a good competitiveness, which JSW Energy will be offering at these locations. At the same time, you should also remember that these are fully depreciated power plants where the fixed costs are very low as well as our efficiencies in O&M cost offers a very substantial competitiveness as compared to other thermal power plants, which are located somewhere else. At the same time, Karnataka is also having a huge renewable potential. So given all these kind of strategic advantages, we believe JSW Energy will offer a very competitive proposition.

Abhishek Puri: Okay, great. And are we now ready to spell out our renewable plan, given that we have set aside the thermal acquisition. In the last quarter you mentioned that you'll be coming out with a detailed plan. So are we ready to talk about it, and what is the thought process, how do we create value out of the cash flow that we are huge cash flow that we are generating today. Your stock is at 0.6 times book and your obviously, the coal assets are not being valued as they used to be getting valued historically. So any game plan that is decided, strategy that is decided for renewables?

Prashant Jain: So the valuation, it's a question you have to answer, but I can answer about the growth side, we have been talking about that in next three to five years' time frame, we will be a 10 gigawatt company, which we were spelling out earlier as a mix of thermal and renewable opportunity. But, now we will achieve that with the renewable space and as we explained last time that we have been working on acquiring the sites, and we have been very aggressively working on that. And very soon, we will be putting our competitive bids in the future tenders as and when opportunities are coming in our way. And for us, the most important thing has been a quality growth over the growth. And that's where we have been very, very mindful and we see that the current environment offers the good opportunities, which can give attractive shareholder return. So you will be seeing us active in the future tenders.

Moderator: Thank you. The next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: First question is on the PFC/REC package of Rs.900 billion to DISCOM. What have you heard in terms of the progress so far. Our sense is that on the overall overdue payables of DISCOMs to GENCOs and TRANSCOs the number as of June is more in the ballpark of Rs 120,000 - 125,000 crores. So it's a lot in excess of what the Rs 90,000 crores package stands for and even their progress has been slow because state governments are shying from giving guarantees on the loans to the DISCOMs?

Prashant Jain: So it has been different for different DISCOMs. I have been following up with some of the DISCOMs where we are supplying power. So for example, in Maharashtra they have given guarantee, they have got disbursement. UP, they have got disbursement and Telangana, they have got disbursement. So some of the DISCOMs, which we are supplying power they have got. And Haryana, Punjab, they don't have any overdue and it's just for one of our DISCOM - only Rajasthan has been pending, where government guarantee is not yet in place. But rest of the other DISCOMs where we supply power, everywhere, either the disbursement has taken place or they don't need money and even from the Rajasthan our dues have been substantially reducing, as I mentioned, that just to give you the color that whatever is our July billing, we have got double the amount and in June also probably 25 - 30% more. Because one color I want to give you is that in the month of April, there was no collection taking place for distribution companies. So, real collection has happened in the month of June and July for payments, which were due in for March, April and May. So the lot of liquidity has come in for the distribution companies in the month of June and July and that's what has reflected. And whatever, our collections have improved and receivables have gone down in the month of June and July, majority are without any disbursement by PFC/REC. So it's primarily from their own intrinsic cash flows. So once these cash flow improves, then our receivables will further go down. But as I mentioned, always the quality of PPA is very, very important, and that's what reflects in the scheduling of power as well as payment or the receivable cycle. And that's what we have experienced that during the last quarter, our scheduling went up by 8% in spite of contraction in demand and our receivables have gone down.

Sumit Kishore: That's very good to hear. Just on this particular point, would it be right to say that your overdue receivables as of June quarter end are then almost negligible?

Prashant Jain: No, not that.

Sumit Kishore: So how does the overdue receivable from March to June in absolute terms?

Prashant Jain: So in March - from March 2020, as we are speaking on 31st of July, it is down by, total debtors are down by 20%.

Sumit Kishore: Right. And within that overdue debtors?

Prashant Jain: So it includes disputable amount also, it includes not due also and overdues also. So yes, 33% approximately is the overdue reduction.

Jyoti Kumar Agarwal: So Sumit, the way to look at it is, the overall debtor situation has actually improved significantly for us across the board. But for disputed, which you would appreciate that we will only get resolution once the matter is adjudicated. So if you exclude that, both the normal receivables as well as the overdue receivables, there has been a significant pickup in the collections and as Prashant is saying overall, our receivables are down by as high as 20%. Overdue is actually down even further. So that's the way to look at it. And this is despite one of the key state for us which is Rajasthan, we have almost 25% of our capacity there not getting any benefit under the Atmanirbhar scheme. There is a plan to get some money there once the government guarantee is in place, and we expect further realization of our overdue receivables from there. So, overall it's been a very heartening progress on the receivables as far as JSW Energy is concerned.

Prashant Jain: And that's why our total net debt has gone down significantly because of this corrections because when these receivables have gone down and then we have reduced our net debt by close to Rs 900 crores in four month's time frame.

Sumit Kishore: Sure. And just as a follow-up. I heard that your overdue receivables is about one third of your gross receivables as of end of July. Is that right and what was that percentage as of March?

Jyoti Kumar Agarwal : No. What, I was saying was the overdue receivables have come down by 33%, that's what I said.

Moderator: Thank you. The next question is from the line of Anuj Upadhyay from Emkay Global. Pleas go ahead.

Anuj Upadhyay: Sir, firstly on the receivables. You mentioned that the receivables are down about 20 odd percent during the quarter. So, it has more to do with the prompt payment or I would say like normal payment, which they have been doing pre-COVID level in our case, or it has more to do with the fall in overall generation itself?

Prashant Jain: It's primarily last two months their cash flow situation has improved dramatically. And, as I mentioned during the quarter our sales to distribution company have gone up by 8%. So our generation did not go down as far as the DISCOMs are concerned. Generation to DISCOM has gone up, I'm talking about thermal generation. Hydro was down by 13% during the quarter. So it is a must run status so whatever we produce we have supplied to the distribution company. Thermal sales went up by 8% during the quarter. So our generation was not down. It is their cash flow situation improved and also they have been paying first to the low-cost power producers. So that's where we got the advantage.

Anuj Upadhyay: Okay. And going ahead sir, you also mentioned about the short term tender. So do we see, DISCOMs across the country or largely to the states where we are offering our power, are they adopting to any measures so as to procure more from the short-term market and bring down their overall power procurement cost as a measure to curb whatever the losses they have incurred in the Q1. So, if that is the case then probably we may see a lot of short-term tenders at an aggressive rate coming up. So do we sense anything happening in the subsequent quarters or say starting Q2?

Prashant Jain: We have not seen any short-term tender coming in the market for last six months' time frame. And until the situation normalizes, I don't think you will be seeing anything. So, I don't see in the next six months time frame also any short term tender which will be coming up in the market. So, situation is going to get normalized only in next six months for the short term market. Right now, whatever the merchant power sales you are seeing in the exchange is due to the fact that some of the plants which are not able to maintain the technical minimum because their power is not being scheduled by the DISCOM because only the high cost power plant are facing those kind of difficulties and their power is not being scheduled by the DISCOMs, so they are selling in order to maintain the technical minimum, the power in exchange markets. Secondly, lot of high-cost renewable power was also not scheduled in the last quarter, which was also finding its way to the exchange. And thirdly, you saw a lot of this hydropower because in South as well as West, you saw a very good early monsoon because of which excess hydropower in the un-tied capacity found its way in the merchant market. If you look at the top sellers, there will be one, you will see one leading hydro power producer who does not have tie up, and he is the biggest seller in the market in the merchant in exchange. And that is what power is driving the lower power cost in the merchant market.

Anuj Upadhyay: Okay. And your outlook on the renewable sir. You mentioned that probably we have pledged ourselves to achieve carbon neutrality. I sense probably now with GMR deal falling out, so renewable would be something where we are eyeing our big leap or growth going ahead. And sensing that currently, the government has been imposing few stringency to import equipment from the China especially. So under such circumstances, how do we plan or manage to eye something big on the renewable space, especially in case of solar?

Prashant Jain: So any policy initiative which is being taken by government of India, it will be having a global impact for all project developers in the country. So that will reflect in the competitive bids. So it won't be unique for any specific company and this is the direction in which government is moving. At the same time, there is a lot of investment which is taking place in the country to manufacture a lot of equipments in India. So we will be evaluating all that, but my experience has also been that whenever any kind of a duty which has been imposed the similar kind of a reduction in the panel prices have been offered by the suppliers. So ultimately, because of imposition of the duty, it has not really matched the kind of a technological advancement, which has happened by way of improvement in the efficiency of solar panel and increase in the size of the solar panel. So that is what has been really at a faster pace than anything else. So the cost of power from renewable sources has been seeing a downward trajectory. So that will have a very big bearing. Second thing is, if you might have observed that the interest cost environment has been really benign. And in case of renewable power, there is no fuel cost. It's only the fixed cost. So if interest costs are going down, the power tariff will subsequently, you will see that they will be seeing the downward trajectory. So that's why renewable sources will be offering a very competitive power tariff in time to come and it will continue to offer.

Anuj Upadhyay: Okay. And lastly sir, are we looking out on the, as a developer perspective, in case of solar or we are open for the EPC or say equipment manufacturing segment as well?

Prashant Jain: No, we are concentrating only on power generation, so we are not looking at either the EPC or manufacturing or distribution side.

Moderator: Thank you. The next question is from the line of Aniket Mittal from Motilal Oswal. Please go ahead.

Aniket Mittal: Sir, my first question is on the finance cost. If I look at the presentation, there's been a sharp reduction in our average cost of debt. Sir, could you just throw some light as to what do you foresee the overall finance cost for the finance rate to be for the full year and do you see any possible reduction in this like going forward?

Jyoti Kumar Agarwal: Yes. So this is a function of two things. One is some of the MCLRs have been reset over this quarter and so this finance cost is reflecting that. Also, when we do prepayments of debt, we proactively sort of try and prepay the more higher cost debt to bring down the average finance cost. So that has been the reason why we've seen a downward trajectory. Now in terms of the prognosis, there are some more loans, which are coming for reset in August, September and

October. So you will continue to see a downward trajectory of this average finance cost over the rest of the year.

Aniket Mittal: Okay. And just on that, could you let me know what's the number of the acceptances at the end of June, because the net debt number does not include, the receivables number does not, sorry include the acceptances, can you let me know that?

Jyoti Kumar Agarwal: Yes. We'll just let you know. It should be around the Rs 1200 crores mark, but I'll just let you know.

Aniket Mittal: Okay. Sir secondly, on the tying up of long term PPAs. You talked about how you plan to do this?

Jyoti Kumar Agarwal: Acceptances are Rs 1200 crores.

Aniket Mittal: Okay, it's Rs 1200 crores. Sir, secondly on the timing of PPAs, I understand that you did mention that you're looking to do this over the next few years. But if you could just give us a time line, particularly in terms of the tying up of your PPA with Dolvi. So, when is that expected and the remaining capacity, could you give us a time line on that sir?

Prashant Jain: Can you repeat your question, please?

Aniket Mittal: I was asking with respect to the tying up of your PPAs for longer term, you've talked about the fact that from the current 84%, you want this to eventually become 100%, but if you could probably provide more detail as to, firstly when are we expecting JSW Dolvi to come up and when are we expecting that to tie up with the remaining PPAs?

Prashant Jain: So. it will be reasonable to expect that in next 24 months time frame, we should be in a position to achieve majority of the long term PPA. And as far as Dolvi expansion is concerned, JSW Steel has spelt out that in the H2 of the current financial year, they will be completing that expansion. And so part of the capacity, once they are commissioned will get locked in. And balance, we are seeing that, as I explained that there is a thermal renewable hybrid tender, which has recently been announced by SECI for 5,000 megawatt. We see a good visibility that we will be very, very competitive to participate in that particular tender. And in addition there will be many other opportunities. So in the next 24 months' time frame, the balance capacity should get tied up.

Aniket Mittal: Sir, one last question, if I may. Sir, the last year I believe we had a PPA with Telangana for which we were to receive the backdown charges. Has that been accounted or receivable in any form?

Jyoti Kumar Agarwal: So we are yet to receive backdown charges and for these kind of backdown charges, we generally account on receipt basis. So none of that has been accounted so far.

Aniket Mittal: Okay. And what's the amount that we are expected to receive?

Jyoti Kumar Agarwal: That amount we are not disclosing it, but we are in discussion with the DISCOM to sort of agree on the PPA based amount. Once we receive, we will book it and accordingly we will disclose it to the market.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: A couple of questions from my side. The first is, if you could help us from the Vijayanagar plant, what could be our dark spreads currently?

Prashant Jain: So Bhavin, as far as Vijayanagar plant is concerned, whatever capacity we are running, that is on a two part tariff under PPA. And balance capacity is we are not able to run because of the bad merchant market at this point of time. So that's the real situation.

Jyoti Kumar Agarwal: And Bhavin, on a unit, per unit basis, the dark spreads have only gone up because these are kind of PPAs, whereas it gets a fixed cost, but the take up has not been fully tested in Vijayanagar, Ratnagiri from the group captive customers. So mathematically, the dark spreads have only gone up on a sequential basis. But we don't disclose our dark spreads in the absolute numbers, but dark spreads have only gone up.

Prashant Jain: Yes. But look at this way that as we have been saying that our 95% of EBITDA is protected EBITDA, which is coming from the PPAs, that's what is the real resilience which it has been showing. So, any improvement in the merchant market is going to be an additional EBITDA otherwise our EBITDA will be well protected.

Bhavin Vithlani: Understand. So would it be like our fuel cost on a landed basis would be in a ballpark of 260, 265?

Prashant Jain: See, it's a function so whatever is our fuel price is also 100% pass through, whether it is dollar or index basis. So entire landed fuel price is pass through in all PPAs.

Bhavin Vithlani: Sure. Couple of bookkeeping questions. So we had this Rs 330 crores loans to Jindal Steel & Power, which was reduced to about Rs 260 crores. So what was the repayment schedule and what is the rate of interest?

Jyoti Kumar Agarwal: So the current outstanding is that this is Rs 211 crores and this we get paid by April next year.

Bhavin Vithlani: Okay, April 2021

Jyoti Kumar Agarwal: It's the market rate of interest linked to an MCLR. It's not disclosed, but it's a market rate of interest that's spread over the MCLR. So it's not a discounted rate or whatever. It's a fair rate of interest that we are charging for the kind of credit risk that we are taking on this particular loan.

Bhavin Vithlani: Understand, But lastly we had this investments in JPVL where debt converted into equity. If you could just highlight what's the way forward on that?

Prashant Jain: We own the equity. That's the way forward. We own 5% of the JPVL, and that's it.

Moderator: Thank you. The next question is from the line of Abhinav Bhandari from Nippon India. Please go ahead.

Abhinav Bhandari: Just continuing on JPVL, there was a loan component as well. So any progress on the recoverability of that component?

Jyoti Kumar Agarwal: So that Rs 120 crores, the understanding is that the repayment of that will start on a quarterly basis once, the 10% of the senior lender loans have been paid. I expect that to happen over the second half of this year and then our repayments will start.

Abhinav Bhandari: Sure. And given that the focus now is predominantly on renewables, just wanted to understand if there is any thought process on unlocking our investments in the South African coal mine and JSW Raigad, though the amount is not much but just trying to understand if there is any monetization plan on that?

Prashant Jain: So we continue to look at various opportunities and as and when any opportunity come, we will be certainly working to monetize it.

Abhinav Bhandari: But the thought process is clear that we are liquidating both of these two, is that right?

Prashant Jain: You can safely assume that.

Moderator: Thank you. The next question is from the line of Swarnim Maheshwari from Edelweiss. Please go ahead.

Swarnim Maheshwari: Sir, three set of questions sir. First, on the other operating expenses, you mentioned that there were three components and one of the component was some sort of optimization that we have achieved and that is permanent in nature. So, if you can just quantify out of the Rs 65 crores of the decrease in the other expenses, what is the kind of permanent decrease that actually we can look forward in the future?

Jyoti Kumar Agarwal: So, I did quantify that, first is you'll have to aggregate all the non fuel items when you describe O&M. And the overall saving at a consolidated level is about Rs 48 crores. Some of it, I explained to you is postponement, some of it is permanent. So, and then some of it is one off, which will not come. But, I would not describe that as an optimization because it's a one off, which was there last year. The pure optimization element would be roughly half of it, Rs 20 to 24 crores. And then out of the balance, almost Rs 20 crores was a one off adjustment, so that will not come through and Rs 5 to 6 crores in my opinion will come through over the remaining of the year because of postponement of this item. So overall, net saving out of the Rs 48 crores in the first quarter, 80% of it or 75% of it is actually permanent savings. This will normalize as we go forward because the one off will not be there, but the normal Rs 20-25 odd crores savings will continue over the remaining of the year.

Swarnim Maheshwari: Perfect. And the second question is, just specifically on the treasury income and the other income in this quarter, it is actually we have seen a sharp 50% jump. Any one offs over there or this is pure treasury income?

Jyoti Kumar Agarwal: So this is a good question. I was expecting this question a little bit earlier. But there are two reasons why the treasury income or the other income has gone up. One is that you would have seen that we are carrying reasonably larger amount of cash than what we used to, given the COVID situation. We are carrying almost Rs 1,000 crores of cash. So the other income on that has been high. The second is there are a couple of one offs in this particular quarter, where there were some liabilities in our Himachal as well as in our Barmer plant. One was relating to a statutory payment and another one was related to a project creditor liability. So these were in dispute for a long period of time. And now this has become time barred, where there is no action has taken place for a very long period of time. There is no claim also from the counterparty and based on legal opinion, based on the fact that we were time barred, we reversed these liabilities and that is also reflecting in the other income this quarter.

Swarnim Maheshwari: Okay. So sir, what is the quantum and you said that this was with respect to Himachal and?

Jyoti Kumar Agarwal: Barmer.

Swarnim Maheshwari: Okay. So sir, what is the quantum that this is pertaining to about the liabilities that is no more required and kind of a reversal now?

Jyoti Kumar Agarwal: Both together would be about Rs 31 crores.

Swarnim Maheshwari: 31?

Jyoti Kumar Agarwal: 31. Yes.

Moderator: Thank you. We will take the last question from the line of Rithvik Sheth from One-Up Financial. Please go ahead.

Rithvik Sheth: Sir, just one pointed question. What holds us back from increasing our dividend payout?

Prashant Jain: No, nothing holds us back and in the past also we have increased our dividend payout as and when we found that there are not enough growth opportunities. So we always try to create a balance between the growth opportunities and pay out to the shareholders. So as and when it comes up for the discussion before the board, the board certainly evaluates and as in past, we have increased the payout, we will be looking at it. And board will be taking a call on that.

Rithvik Sheth: Sure. And just one more question to add on to. Is it reasonable to assume a Rs 300 to 400 crores of receivables to be released due to overdue in the next six to nine months?

Prashant Jain: It's a dynamic situation always. And as we are speaking today, this is a situation that we have seen a moderation in the receivable. And I am expecting once this Atmanirbhar money is also released, so it will be further improving. But we are not yet out of the COVID-19 and if some untoward incident happen and another lockdown happens or something happens, then things can change. But again, as I have been mentioning that, in spite of the worst of the cycles and worst of the challenges, JSW Energy has been in the sweetest spot. Our receivables are lowest in the last probably six quarters what we have seen. And that's what demonstrate our quality of PPA and quality of contracts.

Rithvik Sheth: Thank You

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

Manjeet Buaria: One, I just wanted to understand in 2018 there was this proposal by CERC, not proposal, but a discussion paper on market-based economic dispatch and back then they had proposed that all volumes move to power exchange over time. I just wanted your insight. I sight, practically it was difficult given the state subject as well PPA and all. But just wanted your insights if that is something which can happen over the longer term in the country and what the implications of that would be?

Prashant Jain: So it's a long drawn thought process that eventually it may happen also. And but still, we are not yet ready for that kind of a construct, the whole idea to move to that dimension is to have a payment security mechanism in a, by a indirect way and second objective to that is that the low cost power should be scheduled on priority first, then the high cost power. So there are various power plants which are pit head power plant, but their counterparty doesn't want power beyond 85% because they have all low cost power. Then some other DISCOM can buy that power by doing a pooling in this kind of a construct. So it's going to take some time, but probably it may happen in the next three to five years' time frame. There is a possibility for that to happen.

Manjeet Buaria: Okay. And then one company specific question. Just wanted to understand as a strategy, do we evaluate distribution assets as well and if not, is it something to do with your business philosophy, or is it something to do more with pricing in that space when it comes to distribution assets?

Prashant Jain: So primarily, we have evaluated the distribution sector. There were two problems which we have seen in the new construct. Number one is that it's still a highly regulated sector, more regulated than generation and number two, that the trajectory what is being projected in the bidding document itself, that you cannot make money at least for five to eight year time frame in order to achieve that kind of a trajectory. So these are the two reasons because of which we are little averse that we may not be able to achieve the desired shareholder returns, which we have been looking.

Manjeet Buaria: Right. And sir, one final follow-up on this earlier comment you made that prices on the reasonable side in the tenders which would now come. I just wanted to again get a sense on when you say reasonable, are there any project level IRRs, which you want to take as hurdle when you look at those projects?

Prashant Jain: Yes. Certainly, we look at depending upon the interest rate environment, there are equity IRR, which we look at the project, and I am not commenting that what is the, or whatever is being quoted in the market that is a reasonable rate or not. But I am, what my remarks were, that we have been seeing that the cost of power from the renewable sources have been coming down primarily for two reasons. One is the technological advancement and second is the reduction in the interest cost. And these two things have been on a faster trajectory or a sharper trajectory then the imposition of any kind of a safeguard or custom duties. So because there are number of, there are the different cases because people are considering in the zero custom duty and then balance they are going to claim in the change in law. So, I would not like to comment on a particular tender at what tariff it has been bid. But my comment was that over a period of time, you have been seeing a downward trajectory in the tariff from the renewable sources for a reasonably good equity IRR.

Manjeet Buaria: And could you quantify what is your equity IRR hurdle, or you wouldn't like to do that?

Prashant Jain: Generally, we have been looking at mid teen.

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 very much, all of you for dialing in and in case there are any follow-up questions, please feel free to connect with either me or Nitin. Thank you very much.

Management: Thank you, everyone.

Moderator: Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.