“JSW Energy Limited Q4 FY 2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the JSW Energy Q4 FY 2021 Earnings Conference Call, hosted by HDFC 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 now hand the conference over to Mr. Anuj Upadhyay from HDFC Securities. Thank you and over to you, sir.

Anuj Upadhyay: Thank you, Aisha. Good evening, ladies, and gentlemen. On behalf of HDFC Securities, I am pleased to welcome you all for the Q4 and FY 2021 Earnings Conference Call of JSW Energy. I will now hand over the call to Mr. Ashwin Bajaj, who is the Head Investor Relation for JSW Group, to take this call forward. Over to you, sir.

Ashwin Bajaj: Thank you, Anuj, and thanks for hosting the call today. Good evening, ladies, and gentlemen. This is Ashwin Bajaj. And it is my pleasure to welcome you to JSW Energy results con-call for Q4 and FY 2021, and a deep dive into our renewable-led growth strategy. We have with us today the management team represented by Prashant Jain, CEO of JSW Energy, and Pritesh Vinay, CFO of the Company.

We will start with opening remarks by Mr. Jain and then open the floor to Q&A. So, with that, over to you Mr. Jain.

Prashant Jain: Thank you, Ashwin. Good evening, ladies, and gentlemen. We have seen a very good trend of power demand during the last year post the pandemic and which reflected primarily the economic activity environment. During the full year, the power demand de-grew by 1.2%, but we saw a very progressive trend of power demand improvement. Last year, quarter one, we saw the contraction of over 16%, which reduced to the contraction of 1% during the second quarter. In the third quarter, the power demand grew by 6.3% and quarter four, the power demand grew by 8.4%.

During the current quarter, April till May, the power demand grew by 21.4% and during the June it is growing at 7%. So, in the month of April, the power demand growth was 38%, but May and June, after the second wave of COVID, we have been seeing the power demand growth was only 7% in each month, which is an encouraging trend, and we are seeing that the power demand is going to grow better in the coming times. That also reflected in the merchant tariff. During the full year, the merchant tariff came down to average Rs. 2.83 as compared to Rs. 3 last year.

In case of the Company, the total net generation came down by 6% during the complete financial year, of which the long-term power generation went up by 3.7%, whereas the short-term sales went down by 68%, which was primarily due to the depressed merchant tariff as well as benign power market. However, our long-term thermal generation also went up by 8% during the financial year.

During the quarter, we increased our long-term PPA portfolio by another 179 megawatt, with this, our Ratnagiri Plant is 96% PPA tied up. And also, our long-term total PPA portfolio is now 86% as compared to 81% last year. Now, balance capacity also will get tied up as soon as the capacity expansion at JSW Vijayanagar plant is completed, which we are expecting in next two to three years' time frame.

Another highlight of the quarter was also that the CEA has approved operating of our Karcham plant from 1,000 megawatt to 1,091 megawatt in two phases, and for which we have also got the connectivity approval. And I am happy to share today the CEA also approved this capacity and then our minutes have been uploaded. And in the next two weeks time frame once we receive the environmental clearance, we will start running the plant at 1,045 megawatt in the current season and then next financial year, we will be running at 1,091 megawatt.

When we talk about the financial performance, in spite of the 6% lower energy generation, our EBITDA contracted only by 3%, because we were able to do better in terms of the O&M cost and various other recoveries of our certain disputed receivables. Our profit before tax went up by 6% before exceptional items as compared to the last year, primarily because of the lower interest cost.

Another key highlight which we really are proud of as a Company in the most challenging times is that our receivables went down by 38% year-on-year, and with Rs. 1,300 crores net receivables we are at three years low in the history. And we are pretty sure that this kind of a trend is going to continue. We reduced our net debt by Rs. 2,739 crores during the financial year, and our net debt came down to Rs. 6,206 crores, with a weighted average interest cost of 8.21%. This demonstrates that in spite of only a cash profit of Rs. 2,000 crores and with a dividend of Rs. 165 crores and a reduction of Rs. 2,739 crores sales that more than Rs. 900 crores came from the receivable as well as better inventory management.

This translated to a net debt-to-equity to 0.43 times and net debt-to-EBITDA below 2 times as compared to the industry peers on an average 5 times, which makes it one of the best balance sheet in the power sector in the country. We also did $707 million of the green bond to refinance our entire JSW hydro energy debt which has been totally hedged fully, and which was done at 4.125%. And I am happy to share that it received a very good appetite among the investor and the initial book was built for close to 5 times and that today the bond is also trading between 3.8% to 3.9%, reflecting a very good market condition for our credit payable.

As regards to the growth, I am happy to share today that the Board took a note of on the progress of our 2.5-gigawatt of pipeline. And Board approved a growth strategy and a growth plan to grow up to 20-gigawatt by 2030, which I will be taking you in some time. Before that, I want to give you some update on 2.5-gigawatt pipeline, which we were talking to you in last two quarters. The Company had secured LOI for SECI IX and SECI X for 1,260 megawatt, of which 540 megawatt PPA had already been signed. And I am happy to share, balance 270 megawatt PPA for SECI IX and 450 megawatt of SECI X will be signed in a couple of weeks time before

31st of July, because the necessary approvals with respective DISCOMs have been received by SECI and a back-to-back agreement is expected to be signed in the month of July for entire 1,260 megawatt.

Also, as we have been talking about the group captive portfolio for supply of solar and wind energy, I am happy to share that the JSW Energy or Board as well as the JSW Steel audit committee has approved to sign a PPA for ~950 megawatt of green power to be supplied by a mix of solar and wind energy, for which PPA is expected to be signed by middle of August. The 240 megawatt Kutehr power plant PPA is under finalization with Haryana DISCOM and construction on all these projects is on full swing and I will be giving you a little update on commissioning schedule when I am going to talk about the growth strategy.

In terms of ESG, I also would like to highlight to you that the Company reduced total greenhouse gas emissions by 11% by reducing specific fuel consumption at all three plants put together, which demonstrates that the Company is taking specific initiatives to reduce its carbon footprint and to become a carbon-neutral as soon as possible, and also creating a carbon offset by adding more and more capacity in renewable sector. Also, we have been maintaining our 100% ash utilization as well as zero water discharge. And we are taking specific initiatives for reducing our carbon footprint by making offset by rainwater harvesting, by green plant plantation, and all those kind of initiatives we are taking.

Now, I would like to take few minutes of yours for growth strategy. I am sure that you might have seen our presentation, which has been uploaded. And if you can refer that presentation, then I would like to take a few minutes to run through the presentation.

If I can ask you to go to the Slide #16, we are talking about our four growth strategic pillars. Number one is the significant market opportunity, the second one is the proven project execution and operational excellence; and third one is the locked in resources and fourth is the growth capital availability.

Now if you go to the Slide #17. In last two decades, India has seen power demand growth at the rate of 5% CAGR. And that was seen in terms of both base demand as well as the peak demand. CEA has also projected the similar power demand growth in the coming decade. At a 5% CAGR, the base demand from 1,275 billion unit will grow to 2,379 billion units which talks about close to 1,100-billion-unit demand growth. Now, this demand growth is directly related with the nominal GDP growth of between 5% to 8% and also rapid urbanization and universal electrification. And if you see, with this kind of a demand growth, our per capita power consumption which is one-third of the world average will be moving up going forward.

If you go to the Slide #18, the Ministry of Power is talking about that the incremental capacity which will be coming up only by the renewable capacity and there will be a net capacity addition of renewable energy by the quantum of 356-gigawatt. If you see on an average 32% PLF, this translates to close to 1,100 billion units what we are talking about, 5% CAGR growth. On an

optical basis, sometimes it looks like that India may not be able to add this kind of a capacity in next ten years' time frame because this is an overstated situation. But on a demand perspective basis, it is actually meeting the 5% CAGR demand growth only. In case, because of any difficulty in execution of this kind of a capacity, we will be seeing the power shortage in the country.

Another important reason to see that this is going to be a reality is that no DISCOM is going to enter into any thermal power PPA going forward because of the RPO obligation. Because the current RPO obligation which is there prevailing for meeting the requirement of 21% RPO by FY'22, all the DISCOMs are in a shortage at this point of time and they are only entering into the renewable power PPAs, and the trend is going to continue going forward. And also, it is very important to note that even the lenders community as well as the investor community, nobody is ready to offer growth capital for a Company which is entering into a thermal power generation. In fact, our all-leading thermal power producers have decided to grow on in the renewable space only.

If I go to the Slide #19, then we are talking about this roadmap which by FY 2025 we will become 10-gigawatt and FY 2030 we will become 20-gigawatt. And with this entire capacity, our 30% of the renewable portfolio will become 84% by FY'30.

Now, how do we achieve this growth and whether this growth is realistic, we talk about in the subsequent slide. If you look at in Slide #20, what we really talk about, this 2.5-gigawatt of capacity, there is a complete tied-up capacity which will get commissioned in next 24 months' time frame. The blended tariff of this entire 2.5-gigawatt capacity is Rs. 3.31 and there is a total capital expenditure of Rs. 15,800 crores. This entire CAPEX equity will be funded by the internal accruals.

And as far as the commissioning schedule is concerned, close to 200 or more than 200 megawatt will get commissioned in the January to March quarter. And thereafter, every quarter we will be commissioning between 350 megawatt to 400 megawatt, and between 1,200 megawatt to 1,600 megawatt will get commissioned by March 2023 and balance capacity will get commissioned by June 2023. So, by June 2023, this entire 2.5-gigawatt capacity will be up and running. And, in fact, the commissioning will be happening on a month-on-month basis. So, every month from March 2022 onwards, 100 megawatt to 175 megawatt will be coming on the stream and getting commissioned. And thereafter, we are building a pipeline, and which will be for another 3-gigawatt to achieve 10-gigawatt schedule and thereafter 2-gigawatt every year.

If you go to the Slide #21, there is a perspective what we are really talking about that out of this 356-gigawatt capacity addition, which will be added in next ten years' time frame, our 15-gigawatt is close to 4% of the total capacity. So, we are talking about a very miniscule of the market share because being a conservative company we want to operate in a niche segment, and we wanted to be selective and choosy when it comes to our growth. And that is why you might

have seen and observed that our PPAs which we have secured are on a higher tariff and we are looking for a little more conservative returns as compared to our peer group.

And that is why we would like to see that we operate in a very niche segment, and we will be looking at mid-teen post-tax equity IRRs on a conservative basis. And on a reality basis, it may be on a higher side. And all our projects which we are targeting, and we are building and bidding for our returns, we always look at P90 CUFs so that we get positively surprised in terms of the actual cash flows, and we would like to do that.

In order to give you some color in terms of the value creation, I would like you to go to the Slide #22. And I would like to explain you our current existing portfolio of 4.6-gigawatt which is generating return in excess of 15%, and our gross cash accruals are more than Rs. 2,000 crores consistently which we are going to deploy for the growth.

Another important factor which needs to be seen to read our balance sheet in a little different perspective, our remaining average life of our PPA, which is 86% tied up is more than 20 years and our asset's life is more than 30 years. Today, our net debt is only ~Rs. 6,000 crores and our depreciation are close to ~Rs. 1,200 crores. So, when you look at our ROE on the network, there are the two elements which really needs to be seen that you need to see the free cash flow. Because if my life of PPA is 20 years, and if I refinance the entire debt, then actually repayment will be less than Rs. 300 crores and whereas my depreciation is close to ~Rs. 1,200 crores. So, you need to really see that the free cash flow will be in excess of Rs. 1,700 crores. That is the point number one.

The second point is that in terms of my net worth of ~Rs. 14,500 crores, more than Rs. 4,500 crores are coming from the investments in shares of JPVL as well as the JSW Steel, which does not earn anything. So, if you knock that off and then you look at the ROE, which is free cash flow on the net worth, will be in excess of 15% to 16%. And if you look at the gross cash accrual yield for last five years, will be in excess of 18% to 19%. Going forward, for all our projects, we will be having the similar kind of a free cash flow yield on the net worth.

Therefore, we will be maintaining return on net worth in excess of 15%, 16%. And by levering up our balance sheet, which has been deleveraging because of the no growth which we have seen in last four years, with the 10-gigawatt capacity, our EBITDA will be groing two and a half fold and 5 times at the capacity of 20-gigawatt and our profit after tax will be 6 times at 20-gigawatt capacity. And this will be achieved without any equity dilution. And our net debt-to-EBITDA will also be below the industry average at all times.

If I take you to Slide #23 which talks about the second pillar of our proven project execution and operational excellence, we have executed all our projects at the lowest gross block in the industry, and that trend is going to continue. For this 2,500 megawatt of the capacity, which is under construction, our capital allocation will be the most efficient in terms of whether it is when

you compare with any wind power developer or solar power developer or hydro power developer, so that thing will continue.

Second thing is our strong track record of the lowest O&M cost per megawatt which we have been consistently optimizing. And today, our operations and maintenance cost are lowest in the country by segment as well as on a consolidated basis. And that trend will be seen in the renewable sector also because we will be doing the O&M of all of our projects on our own as compared to the industry practice where the OEMs are doing the O&M of their projects, which will be providing another kicker for an incremental IRR.

If I ask you to come to the Slide #26 which talks about the third pillar of locked-in resources. This is a very important pillar, wherein we are talking about we have deployed a systematic approach to secure the wind and solar resources and in some specific states. For this 2.5-gigawatt capacity which is under construction, we have already acquired all the resources. And in addition, we have already locked in another 3-gigawatt of resources by way of various government orders for some specific sites in specific states, which we are talking about the next pipeline from 7-gigawatt to 10-gigawatt which will be executed between 2023 and 2025.

And this strategy gives us a very clear visibility to execute the project in time, at a lowest possible cost with a minimum IDC and minimum uncertainties. So, what we have been doing is that we have been securing all right of ways, connectivity and we are building all our transmission corridors well in advance. And for example, now the fresh bidding whatever we will be undertaking in the current financial year will be for the project which will be executed from FY 2023 to FY 2025. So, all those resources have been already locked in. And in next 12 months, they will be acquired. So, before we are signing the PPA, the resources are acquired so that you have a complete visibility and a control on project execution.

The fourth pillar is on the Slide #27, about the available growth capital, where we are talking about that because of our strong balance sheet, and a very good, more than Rs. 2,000 crores of internal accruals, and a very good cash balance of more than Rs. 2,200 crores, we can undertake this all capacity without any equity requirement. And in addition to that, as we are talking about that we are having close to Rs. 4,700 crores of the JSW steel share, which we are classifying as a non-strategic equity investment, which we can monetize if we want to further accelerate the growth from 20-gigawatt to higher at a faster pace. And also, to give you a color that we were having a JPVL share, 90% of the shares we have already monetized in the current quarter, and we recovered some of our investment. And in addition to that, we have a diversified pool of liquidity.

So, all the four pillars which I explained to you will take our Company on a growth path by becoming a big name in the renewable sector, by keeping our pedigree of efficient capital allocator, following a conservative approach to give the industry-leading return to all the stakeholders. And to give you one more color that, on our existing 4.6-gigawatt, our return on

the invested equity is close to 30%. And that is what is we are talking about that we will be following the similar kind of approach going forward.

With this, I would like to end my comments. And I have taken a lot of time to explain you about the growth strategy because I thought after the Board took a note of this growth plan and they approved it, it will be very prudent to explain you in detail, which has been put up in the presentation. Our IR team will be available to answer each and every of your question as and when it is required. And I am opening the forum for question and answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sumit Kishore from Axis Capital. Please go ahead.

Sumit Kishore: My first question is on your observation that to achieve 450-gigawatt capacity by 2030 and if all incremental capacity were to get added through the renewable route, it would just meet the incremental demand requirement at a 5% CAGR. In your excel spreadsheet, if you were to change the thermal PLF, which has been languishing around 55% in the base year for FY 2021 and which was at 75% in 2008, and if you were the change the gas PLF from 25% to 60%, then the renewable capacity addition requirement comes off significantly. Would you have any comments there?

Prashant Jain: Not really, Sumit, because you will continue to see a lot of capacity which will be getting retired in next ten years time frame. And by a conservative estimate, I am expecting that in next ten years time frame, close to 60-gigawatt of the capacity will get retired. And because of the lack of investments and getting older plant and third is the environmental norms which are coming into the forefront. So, that capacity once it goes out, it will not be there. Second thing is that there will be a lot of capacity which will be used on an intermittent basis in the thermal when the renewable power is not available. At that point of time, the plants will get utilized, but in a daytime when the excess solar and wind power is coming at that point of time, the power plants will not be running at a full capacity. So, that is my take is on that. So, out of the 225-gigawatt, which is the total capacity, you will be seeing in by 2030 the net capacity will be very different as compared to what CEA has talked about. I know that CEA paper is talking about close to 290-gigawatt capacity by 2032, but as per my expectation, this will be lower than 225-gigawatt. I will not be surprised if it is 175-gigawatt, 180-gigawatt.

Sumit Kishore: So, given the legacy of your own units, let us say Vijayanagar, do you expect to shut down your unit in the next five years?

Prashant Jain: In the changing environment, it is never said no. Because you know, there are few things which are being forced today. For example, I will give you one more color. Now, in the Vijayanagar plant, our fuel cost today is Rs. 4.30, and average fuel price for last four, five years is in the range of Rs. 3.50 to Rs. 3.60, whereas the PPA which I am signing to supply the renewable power is much lower than the variable cost. So, the Company is saving sheerly on the variable cost as compared to the while switching over to the renewable sector. So, like this, there are

different cases which are being made out. And those are posing not only the environmental concerns. So, going forward, number of things will be at play, and I am pretty sure that this trend will be surprising lot of people.

Pritesh Vinay: And second And Sumit if I may add to that. As Prashant mentioned as part of his opening remarks, one of the visibility that we have for the future of the Vijayanagar plant is that JSW Steel at its last Board meeting announced a capacity expansion by about 5 million tonnes at Vijayanagar, which is likely to get commissioned in the course of next two to three years. So, post-commissioning of that, there is a potential of tying of additional power under long-term PPA with JSW Steel once that expansion goes to 18 million tonnes. So, a short answer to that also is that we do not envisage any possibility of shutting down the Vijayanagar thermal power plant for lack of schedule.

Prashant Jain: And second thing is that you need to see what the thermal power plant is doing today. Like in Vijayanagar, we are going to set up close to 825 megawatt of the hybrid power capacity, which will be giving a RTC power of 275 megawatt. Now, recently you might have seen a tender which came in March 2020 which was won by ReNew. That tender was renewable RTC power tender which was subscribed at Rs. 3.55 levelized tariff. And which was at Rs. 2.90 at the first year and then which was going up at 3% escalation every year, which came out to Rs. 3.55 levelized tariff. Now that tender highlight was 70% PLF in an individual minimum month and annual PLF was 80%. Similar project we are setting up for Vijayanagar where we are supplying by a dedicated transmission line, 275 megawatt for which we are setting up this 825 megawatt of the solar and wind combination hybrid power capacity. Now, what is that thermal power plant is doing? It is working now, the entire capacity at 18 million tonnes will get tied up and it will work like a battery storage system. At a time when the renewable power is not available, because the power flow will be like the whatever is the off gases, that must use, then the renewable power must use, then after that balance capacity will be by thermal. Now, by doing that, the thermal power plants are working as battery storage system to provide the intermittent power. That is what I made in my initial remark that the PLF of the thermal power plant will not go up, rather they will be working with the full capacity for supplying the intermittency of power. So, you are using, making an economically viable solution by using maximum green energy. With this arrangement, JSW Steel will be using close to 78% of their energy by the green, by off gases as well as the renewable and balance will be only by coal. So, this is a new paradigm shift which will be happening at every location, and also in the national grid. I hope I clarified your question.

Sumit Kishore: Yes, sir. And last five years, 10-gigawatt of capacity have been retired in the country in thermal and when I speak to NTPC and PFC they tell me they have plants running for 40 years, which they do not want to shut down. So, I just hope better sense prevails in that thermal capacity is shut down. Thank you so much for answering my question.

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

Bhavin Vithlani: Sir, the question is the incremental 5 million tonnes expansion at JSW's Steel, Vijayanagar, would imply what kind of megawatt of PPA for the Vijayanagar power plant?

Prashant Jain: So, it is not crystallized yet, but you can reasonably expect that the majority of the capacity at Vijayanagar will get tied up.

Bhavin Vithlani: Sure. Thanks. The second question is on the growth strategy, I do remember meeting the Company some time back where receivables was a concern and was monitored at the CEO level function. So, limited changes have been seen on the distribution side of the business. So, any thoughts around that would be useful.

Prashant Jain: I could not get your question, Bhavin.

Pritesh Vinay: CEO level monitoring on receivables.

Prashant Jain: At my level? No, it is a Company culture. What we can really talk about it, that there are the multiple reasons for reducing our receivables, but as a Company we have come long way. It is not only the receivable, but it is also the O&M cost, it is also about our inventory management. Everything, the Company has done phenomenally well, whether it is the manpower, productivity improvement. So, I think probably on a headline number, you are only seeing the receivable. But if you see my presentation where we have demonstrated our O&M cost year-on-year has gone down for last four years, in spite of the wage increase by 8% every year. So, the manpower productivity has improved rather not only the receivables, but also, we have done various other improvements. So, it is everywhere, the Company had come in a long way.

Bhavin Vithlani: Sorry, maybe let me rephrase the question. So, the counterparty risk in terms of poor financials of the DISCOMs, there is limited improvement. I mean, there was a liquidity injection by the government, and that has resulted in better receivables, but that seems to be shorter term. So, the growth that we are looking at, but the counterparty risk does not seem to be reducing. So, if you could help us, your thoughts on that, and if you could give examples by whether having counterparty as SECI, were there instances where the default by the counterparty and SECI has been able to mitigate those default risk?

Prashant Jain: So, my take is very simple that we do not have any bad experience with any of the DISCOM, whether it is you named some of the DISCOMs where people are talking about in some DISCOMs in south people categorize them as a very poor DISCOMs, we have recovered our compensation from those DISCOMs also. For example, in the current quarter results, there is a Rs. 100 crores compensation which was shorter off-take which was due from Telangana, and also from Andhra Pradesh, which the power was supplied to them one year ago, but we could recover the entire compensation, not only for the energy supplies, but also the compensation for power not taken by them.

So, I do not see that the DISCOMs receivable is a bad debt at all, provided, and I will qualify it by only one thing that you are in a bottom quartile of their purchase basket. So, if your power tariffs are competitive, you will be not only paid on time, but if you are not paid on time by one quarter or two months, you will be paid on the delayed payment surcharge also. So, we do not get really disturbed. We really see these kind of problems where the certain projects were built at a very high tariff and then there the receivable becomes a big problem for those project developers. But otherwise, low cost power producers, this is not at all a situation. So, we do not see any kind of an issue. However, when it comes to the SECI, the credit rating substantially changes, and it helps you to reduce on your finance cost. But if we are supplying power directly to the DISCOMs also, I do not see that as any kind of risk.

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

Mohit Kumar: Congratulation on charting out the new growth path, which seems to be very promising. So, my first question is, sir, what is the criteria for entering into a PPA with your group company, especially for the 958 megawatt? How the tariff will be decided? That is the first question.

Prashant Jain: So, it is a competitive basis. They had invited various bids, and in which we also participated, and we had negotiated. So, it was decided based on that. And I gave you another color also, like for example, the similar kind of a bid was also called by SECI where there were certain PPA which entered, and similarly we are also working on it. And I have also given you a color also. And if you see the total blended tariff which has been provided by me for entire 2.5-gigawatt is Rs. 3.31. And if I remove the hydro power plant from this, and if I talk about only solar and wind capacity including SECI and group captive, it will be close to Rs. 3.08.

Mohit Kumar: Sir, are the opportunities emerging primarily to meet the RPO obligations of JSW Steel? Or do you think if it is more sustainable, it means that there are furthermore opportunities maybe available, once the capacities ramp-up at JSW Steel?

Prashant Jain: So, this has nothing to do with the RPO only, because it is towards two things as I explained there. If you look at the average variable cost itself is close to Rs. 3.60 for last five years, and current fuel cost is north of Rs. 4, Rs. 4.30 if I am talking today is the fuel price. So, if you are securing power at Rs. 3 or Rs. 3.30, then you are saving on variable cost plus you are meeting your RPO obligation. So, there the economic rationale is totally changing. Why to go for a high cost of power in the name of a thermal power if the same power is available at a lower tariff? And, if you can get a renewable power with an 80% annualized CUF and minimum 70% CUF on a monthly basis, why do you need a thermal power? That is the change. That is what I explained that 275 megawatt is a RTC power we are supplying to steel plant by setting up 825 megawatt of the solar and wind combination.

Mohit Kumar: Understood sir. Last question sir, we have not seen you participating in the solar bids. Is there any aversion to the solar competitive bidding? And if so why? And secondly, are we looking

also at the acquisition, because I believe that there are number of renewable players who are looking to get out of the smaller capacities. So, do we have any plan to acquire the assets or to look at the assets?

Prashant Jain: So, like you are agnostic to the companies, and you look only for return, the same way we are also always looking for returns. So, if solar gives me a good return, I will go for solar; if wind gives me good return, I will go for wind. So, the reason you know that in case if solar tariffs are Rs. 2, Rs. 2.20, I cannot give the desired return to all the stakeholders. So, I refrain myself. The moment I see enough returns, I will be attracted towards that theme. So, that is one part. Second part is in terms of the acquisition, if I am getting any good asset on a better return than what I am building now, I will be certainly acquiring. And if I am not getting, until that time I will be going for the new opportunities.

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

Atul Tiwari: Good to see the Company back on a growth path. Sir, just a couple of questions more around the renewable plant. So, this 2.5-gigawatts of capacity that you talked about, what will be the annual blended PLF on this capacity?

Prashant Jain: Sir, this annual blended PLF will be in north of 33.5%[1]. It is on P90 basis.

Atul Tiwari: And obviously, the Company has demonstrated excellent track record in terms of managing the O&M cost for thermal project. So, for these projects, broadly what kind of O&M per megawatt we can look at?

Prashant Jain: So, for all your modeling exercise probably you can get in touch with our IR team, they will be able to provide you with these kind of numbers.

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

Aniket Mittal: Sir, my first question is just on the group CAPEX part, could you tell me what is the overall CAPEX and the wind-solar split that you are looking for the project?

Prashant Jain: So, total CAPEX, as I explained, is Rs. 15,800 crores for entire 2.5-gigawatt capacity. For individual blocks, certainly, you can get in touch with the IR team, they will be providing you by project by project.

Aniket Mittal: Sure. And just confirming, 960 megawatt of group capacity that you are doing, this is for the upcoming Vijayanagar plant, right?

[1] Excluding hydro

Prashant Jain: No, it is for all three plants. So, it is for Salem, Dolvi as well as Vijayanagar, all three. But in Vijayanagar, we are setting up out of this approximately 825 megawatt which is going to give them 275 megawatt of RTC power.

Aniket Mittal: Because what I was trying to understand is, would it be right for me to assume that this 825 megawatt or rather the commissioning of 825 megawatt of Vijayanagar would be dependent on when the 5 million tonnes of Vijayanagar comes in?

Prashant Jain: No. As I mentioned during my presentation also, this entire 2.5-gigawatt capacity will get commissioned by June 2023. Starting from January 2022, every quarter approximately 200 megawatt to 400 megawatt every quarter it will get commissioned, and we will commission everything by June 2023.

Aniket Mittal: So, this new plant that is coming, it is also sort of coming from the existing capacity at Vijayanagar, JSW Steel?

Prashant Jain: Yeah. With the existing capacity, it will be used. It is a replacement of thermal power plant than RPO. Their current load is close to 1,100 megawatt.

Aniket Mittal: Sure. That is helpful. And sir, just to understand, I think in one of your speech you mentioned that there is roughly around 5-gigawatt to 5.5-gigawatt of land and other resources that you have already acquired and are in place. Sir, could you help me with a bit more color on that? And in which states have we acquired those resources in, and are these largely related to wind resources?

Prashant Jain: See, it is in various states. There are all resource rich states which are there where we are working. And we have also signed various MOUs for various states also, we got an incentive package from various state governments also. But purposely, we are not trying to disclose all these locations and other things. But we have got necessary orders, government orders to secure these locations, because these are very, very important. And in due course of time, as and when they are fructifying in various bids, we will be disclosing the connectivity location as well as the location where the actual project is coming. And we have talked about this 2.5-gigawatt locations, we have disclosed, the balance locations will be disclosed as and when they are converted into the bids and actual construction on ground.

Pritesh Vinay: And Aniket, if I may add to that, we are actually being talking about this for the last few quarters in our earnings calls, that we are investing in building organizational capability on the one side by on boarding of talent and building competencies. And at the same time, we have been busy acquiring resources which includes both land as well as connectivity resources. So, we have been talking about this also. So, it should not come to you as a surprise that suddenly we are talking about this.

Prashant Jain: I will give you one color for the interest of the audience. Typically, on a renewable power project, the interest during construction is 9% to 10%. In our case, because of acquiring the site in

advance during the connectivity right-of-way and building the EHV line in the substation in advance before even first turbine or a panel is put into the place, your interest during construction can be almost zero. Because you can reduce the IDC from 10% to 3% to 4% and that 3%, 4% can also be offset by generating the revenue during trial production, because if your turbine is coming on to the foundation and it starts flowing power, and even if you sell that power to either to your PPA guy or you sell it into the exchange, you would be reducing your project cost by 10%. So, that changes the entire dynamics of the power sector, and then your return ratios.

Aniket Mittal: Sure. That is right, yes. So, just one last question, sorry to harp on this, I think an earlier participant also asked you a doubt about the lack of bids in solar. And that is where I just want to dwell a bit upon, because this entire target that we are seeing on the renewable front is largely led by solar. And while we have been continuously biding it in wind and hybrid, we have not really participated in the solar front. Just wanted to dwell on that, is it really the competition intensity in solar that is putting us off? Or is it that there is some competitive advantage that you see that JSW Energy has in wind, which is why you are focusing on wind there?

Prashant Jain: No. See, the solar projects are very easy to execute, and people have been projecting a particular panel price and panel price has been dropping better than their projection. So, one side, project is easy to execute; second side, the people were making a lot of return so that is why there was too much of competitive intensity and then tariffs were coming so low. But we never believed on those kind of a tariff. And the second is that all those tariffs are planned on P50 to P75 CUF which may come for three years, but you will be surprised to note that even the radiation as well as wind is cyclical in nature. So, if you generate the data of last 30 years, you will realize there are various cycles like you have the commodity cycles in existence, similarly, there are the solar and wind cycles are also in existence. But when we are building a project for 25 years PPA and then generation does not happen that way, then it becomes very tough. So, in a way the tariffs have been the reason we have not been inclined too solar. But, if we see solar tariffs becoming reasonable, we will be certainly doing solar. Because we are building a quite a big resource bank for solar sites also, and which is already in our possession. And at some point of time, we will be doing it and we are quite confident. That is why we have been talking that we are only looking at 4% of the total basket, so that we can be in a niche segment.

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

Murtuza Arsiwala: Sir, just a question on the renewable prospects also. What is the kind of leverage that you are looking to use, or would you fund it entirely through debt? And could we look at monetizing the ownership in JSW Steel given where the prices are? And like you said the cash flow returns from that investment is minimal, could we look at utilizing those proceeds to fund the renewable prospects? Also, given that wind is relatively higher than solar, we understand the competitive intensity and lower return profiles, but how realistic are our growth targets because SEBs would probably be more inclined to pursue the lower solar tariffs. So, two parts to the question; one is on funding, the other is on the growth prospects between wind and solar.

Pritesh Vinay: Murtuza, so there are two parts of your question. On the first part, look, as Prashant mentioned in his opening remarks, we have pretty much followed very consistently, a very conservative and prudent approach and being very, very selective in pursuing growth, right? That has been our track record over the past decade or so. And that is one of the reasons why we are where we are in terms of our balance sheet and cash flows, etc. So, therefore, consistent with that, he did mention that this entire growth roadmap that we have laid out first to an intermediate milestone of 10-gigawatt and subsequently to the milestone of 20-gigawatt, we would continue to maintain leverage ratios below the industry average that you are seeing right now. So, we think that based on our estimates, we should not exceed 4.5 times on a debt to EBITDA at the 10-gigawatt mark, and once we reach 20-gigawatt, we would be inside of four times debt to EBITDA, which would continue to be below the industry average that we see right now. So, that is the first part of your question, that from a balance sheet leverage comfort, etc., point of view. The second bid that you talked about was about the wind and the solar combinations, right?

Murtuza Arsiwala: Solar. Yeah.

Pritesh Vinay: Look, so as Prashant mentioned, we are agnostic to the space, but we are very, very focused on meeting our internal return thresholds. So, we are very, very selective on that. So, maybe it means that at a certain point of time there is one basket where we see returns and we pursue that, and as things change, at a certain point of time and returns become visible in the other basket, we will be opened to move into that. As far as investing in capability and preparedness, both in terms of resources, talent, connectivity, etc, we are agnostic, we are pursuing both the opportunities. But as Prashant said that from a phasing point of view, it may be heavier towards wind at this point of time. But you never say no as he said earlier right? Things will evolve, and then we will calibrate according to that.

Murtuza Arsiwala: Sure. Just to supplement it, Pritesh, any views on monetizing the JSW Steel ownership?

Pritesh Vinay: Yeah. Sorry, I am sorry I missed out on that. Thanks for pointing that out. No, again, this entire 20-gigawatt roadmap does not require any monetization of any of the non-strategic investments that we have. You know, there are other levers to that as well. In addition to monetizing existing investments, there could be potential getting in a strategic partner and equity dilution, etc. Those optionalities would be exercised only if there were an opportunity to accelerate the current growth path that we have laid out. So, if that were to materialize, then we would not be averse to evaluating, tapping into any of these eventualities. But that is not required to meet the base case of 20-gigawatt by 2030.

Moderator: Thank you. The next question is from the line of Subhadip Mitra from JM Financial. Please go ahead.

Subhadip Mitra: Sir my question is, with regards to the fact that we have seen a bunch of past tenders on the renewable side where PSAs have not yet been signed either because of tariffs or otherwise, so

do you see this aversion from DISCOMs to signing of PSAs or the chase for lower tariffs a potential spanner in the wheel for the entire sector as a whole?

Prashant Jain: So, it is a case to case basis. So, you know, it is primarily prominent in the solar space, where it is happening because every month the tariff has been dropping and that puts up a difficult situation in front of the DISCOM that if they should sign this PPA or after one month they will be able to sign and secure at a lower tariff. So, that is declined. But if you see, tariff is not a problem. We have signed a SECI IX at Rs. 3 and it is the highest ever PPA signed by a single DISCOM for 540 megawatt. And we have already secured it. So, I do not think tariff is the issue. The construct or the rate of fall of tariff in solar bids month-on-month is the issue. So, they would like to wait. So, it is something like you are seeing a stock prices are falling every day, so would you like to buy it today or you would like to wait for three more days to buy at a lower price? So, similarly, DISCOMs have been waiting in case of solar.

Subhadip Mitra: Understood. And on the same lines in your view, do you see an incremental demand for future wind PPAs or future wind tendering coming up? Or is it still more levered towards solar?

Prashant Jain: So, RPO obligation side, there is a deficit in terms of wind at this point of time, and there are enough bids which have already happened for solar.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: I have four questions, sir, so just I will ask them in sequence. The first one is, in the case of wind and solar, you mentioned cycles, is solar more predictable than wind or is there any difference between the two? That is question number one.

Question number two is, given all the base load kinds of issues that you are seeing, of course, demand has come down because of COVID, do you see any upside at all in merchant sales that can happen even before the Vijayanagar plant of JSW comes on stream? That is question number two.

The question number three is in the SECI projects which you have signed, and so you have been very careful about counterparty risk, which is a great thing, they have back to back PSAs with the various state DISCOMs. Will their ability to take power or pay affect the ability of SECI to pay you, or is it just independent, is question number three.

And the last question, sorry, is in terms of one of the important things for you, like you rightly said is financing cost. And have you been talking to rating agencies, because despite having a very conservative financial profile your rating was AA-minus. So, given the growth plans have they been on board also for your growth plan? So, those are my questions. Thank you.

Prashant Jain: So, as far as the pattern is concerned, you know, both are predictable if you are following a P90 profile. But if you are following P75 profile, both are as unpredictable as each one of them

depending upon which cycle they are moving in. So, if they are moving in P90 and then you have projected P75, you will be positively surprised, but if you are at P75 cycle you will be negatively surprised. So, if we are estimating today at P90 whether it is solar or wind, we are agnostic, because nine out of ten years, you will be getting that much of generation that is what P90 is all about. So, it is very, very tough and to project that which year, what is going to happen, that is why we are conservative, and we follow P90.

The second thing is, as far as the merchant opportunity at Vijayanagar as I explained just now, the fuel price there is on an average for last four years is in the range of Rs. 3.30 to Rs. 3.50. So, as, and when you see the merchant tariff going up, there will be opportunity. We saw this kind of opportunity in 2019 in October where one month we were selling huge power, we saw the similar kind of opportunity came this month, this year in the month of March. At that point of time there was a huge shortage, we were selling quite a lot of power in from the Vijayanagar. So, as, and when the merchant tariff goes up, they are north of Rs. 4 or Rs. 5, there is opportunity to sell power from merchant. And I would ask Pritesh to take the next two questions for the counterparty risk of SECI as well as the funding cost.

Pritesh Vinay: Yeah. Thanks Prashant. Vivek, on the counterparty, look, you know, okay, to put things into perspective, we do not have any PPAs in SECI right now, right. And yet, we are at a three-year low in terms of outstandings, just to give some more color. And while the overall outstanding is down by 38% Y-o-Y if you look at the quality of the improvement in the collections, it is much better, because the overdues in the same period have actually come down by 50% on a Y-o-Y basis. So, the limited point is this that, you know, as long as it is a competitively priced tariffs and the overall procurement basket of the off taker you are in the bottom 25%, 30%, you will be relatively better positioned in the sector. So, we are not really the right people to comment on experience in SECI, because so far we have none, right.

That is on that question. On the last bit of your question which is linked to the funding cost or more importantly linked to the ratings, look, you know, I mean, all I can tell you is this that we have a very active engagement with the rating agencies where we transparently share our growth plans and performance of the business strategy and our approach to mitigating the various risks that they perceive from their frameworks point of view, and that continued dialog will be on, I don't think it would be appropriate for me to comment on the specific rating, because that is an outcome of a very comprehensive and robust internal process of any of the entities. So, I would request to leave it at that. But we are always available and transparently engaging with all the agencies on a uniform basis.

Vivek Ramakrishnan: Fair enough, Pritesh. So, I just meant the SECI because a few of your future projects are with SECI right, the PPAs are with SECI right?

Pritesh Vinay: Yes. 1,260 megawatt is with SECI now, correct.

Prashant Jain: But to give you a perspective when I am signing a PPA with a DISCOM, the credit profile is inferior to what I am signing a PPA with SECI, in terms of both rating agency as in terms of the credit cost, both.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to Mr. Ashwin Bajaj for closing comments.

Ashwin Bajaj: Thank you, operator. And thank you ladies and gentlemen for joining us today. Please do contact us if you have any follow-up questions. Thanks again.

Moderator: Thank you. On behalf of HDFC Securities, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.