"JSW Energy
Q3 & 9M FY2019 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the JSW Energy Q3 and nine months FY2019 Results Conference Call, hosted by Edelweiss 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. Swarnim Maheshwari. Thank you and over to you, Sir!

Swarnim Maheshwari: Thanks Anand. Good evening and welcome everybody. On behalf of Edelweiss, we welcome you all to JSW Energy Q3 FY2019 and 9M FY2019 results.

From the management, we have with us Mr. Prashant Jain, Joint Managing Director and CEO, Mr. Jyoti Kumar Agrawal, Director - Finance and Mr. Sharad Mahendra, COO of Energy Business.

We will have our opening remarks from the management first, post which we will have a Q&A session. I will hand over the call to Mr. Pritesh Vinay, Head of IR, JSW Group. Thank you and over to you Pritesh!

Pritesh Vinay: Thank you Swarnim. A very good evening to all the participants and we welcome you to JSW Energy's Q3 FY2019 results. I am sure you had the chance to go through the results, the press release and the presentation, which is already uploaded on the website and a link of the same must be in your inboxes. As Swarnim mentioned, we have the senior management team of JSW Energy with us today to discuss the results. We will keep the format simple. We will start with a few minutes of opening remarks by Prashant and we will then open the floor for Q&A. We request all participants to restrict their question to two per participant in order to give everybody a chance. With that over to Prashant!

Prashant Jain: Thank you Pritesh. Good evening ladies and gentlemen. This quarter was an interesting quarter. In terms of the industry update, we saw the demand grew by 6.8% year-on-year. During the month of October, we saw the power demand went up by 11.5% and this demand improvement we have been seeing consistently, because Q2 also we saw 6.2% demand growth and after a couple of years, we are seeing the trend that the power demand to GDP elasticity is converging close to 1:1.

The same thing was reflected in terms of the merchant volumes also and industry-wide PLF. For entire industry, we saw 61% PLF for the thermal power sector and that is what is also reflected in terms of the improvement in PLF for JSW Energy. After a number of years, first time we saw in our Vijayanagar plant in the month of October, the plant operated at around 93% PLF. Ratnagiri plant operated close to 96% PLF, which was also highest after a long time.

The same reflection was seen in terms of the prices in the merchant market also. During the month of October, the average merchant price was Rs.5.94 and peak prices went as high as Rs.20, which was the ceiling. During the last quarter, the average merchant price was Rs.4.28. For the nine months, this same price is Rs.4.08 in contrast to the last year average price of Rs.3.26.

So in a nutshell, what I am trying to explain is that the power demand is improving, and the capacity addition is not taking place. Last year, the total capacity addition in the renewable space was close to 11-gigawatt. This year, target was 22-gigawatt against that the capacity addition is 5.3-gigawatt.

So on both sides you are seeing that the improvement in PLF is going to increase and if the shortage of coal is there, then discoms will be forced to divert to buying in merchant market. And in merchant market, if the coal is not available for e-auction, then you have to import the coal and that's what reflected in last quarter, in Q2 there 44% was the growth in the coal imports. In Q3 also it was close to 21%, so that reflects that more and more shift is taking place in the merchant volume towards the imported coal base because the availability of coal is there only.

We have also been working upon improvement in our efficiencies. We reduced our auxiliary power consumption and improved our heat rate because of which our dark spreads improved. During the quarter, our PLF went up by 3%. For the hydropower, we were operating at 24%, which was same as last year and Barmer deemed PLF was 80%; but in case of JSW energy, it was average 73%.

For the quarter, our turnover went up by 20%, EBITDA went up by 20%, the profit after tax went up by 212% primarily the reasons is as I explained is improvement in the darker spreads, higher realizations and also reduction in the interest cost, which went down by 13% at Rs.295 Crores.

We reduced our debt by close to Rs.300 Crores during the quarter and now our net debt has come down to Rs.10686 Crores. If you look at last seven quarters, we have reduced our debt by around Rs.3700 Crores. In addition, we have reduced our buyer credit in excess of Rs.500 Crores, so we are talking about close to Rs.4200 Crores deleveraging of the balance sheet, which also reflects that in 2016-2017, our annual interest cost was close to Rs.1640 Crores. Now we will be talking about close to Rs.1200 Crores interest cost, so the interest cost reduction that has happened is around Rs.440 Crores.

Going forward, what I am seeing is that two things, which are very, very evident. Number one is that the demand profile is very good. No new capacity addition is taking place because of which the capacity utilization is going up. Industry wide today the PLF stands at 61%. We are expecting this in the next two years to three year timeframe, the PLF for the industry will go up to 72%-73%. I would like to remind you in 2004 when the power shortage started, the thermal power PLF went up close to 73% - 74%, so what I am trying to indicate is that this sector is going to get consolidated because right now with 6.5% demand growth, you are talking about 10 gigawatt of the net demand increase every year based on 153 gigawatt of the base demand and 176 gigawatt of the peak demand, which if you top it up with the auxiliary power consumption of 9.5% to 10% and normative PLF of 85% when you are looking at 15 gigawatt to 17 gigawatt of the net gross capacity or gross demand increment. With no new further aggressive capacity addition in the renewable space, you are looking at more and more PLF improvement in thermal space. With a limited capacity addition in the domestic coal side, you will be looking at more and more imported coal based power generation on the existing power plant, so we are looking at higher merchant volumes and better dark spreads in time to come. With that I would like to open the floor for question and answer. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Apurva Bahadur from ICICI Securities. Please go ahead.

Rahul Modi: This is Rahul. Thanks for the opportunity. Just a quick question; Sir we have seen quite a robust quarter in terms of merchant realizations and obviously sales, so how do you see this going ahead and how would we optimizing our sales between third party and internal given the seasonality in these prices and typically what is the comfortable level of mix that we would like to maintain in terms of merchant and in-house?

Prashant Jain: Given a choice, we have been always looking at a complete long term PPA tariff, but as we are speaking, we are having a long term PPA portfolio of 80.5%, so balance is 19.5% capacity is open. We continue to look at various opportunities to increase this portfolio, but what I can say in limited words is that in the next 24 months, we will be having better merchant volume than the last 24 months. We will be having better darker spread than last 24 months for the reasons, which I have explained in my opening remarks. So short term basis, the merchant capacity is going to give a good operating leverage. I am not sure about the long term basis because you know that as you mentioned, this is about the seasonality and also when the capex cycle starts and the demand and supply mismatch will again come up. So right now you may be looking at in some time, there will be a balancing and then there will be a shortage and again, then there will be excess capacity, which will come up, which is a natural cycle. So long-term perspective, when you look for 8, 10, and 20 years perspective, it is always good to have a long term PPA portfolio, but for a medium term portfolio having this open capacity could be a good idea.

Rahul Modi: Sure and Sir just one more thing. Now, as you mentioned that you are seeing demand growth being robust and obviously not much of capacity would be coming in beyond the next three to four years, do you see you getting back to adding capacity because you had earlier many years back planned capacities at West Bengal and a couple of other places where probably proximity of coal was better, so do you think you will revive those projects if this kind of demand growth continues?

Prashant Jain: I think that is a long way to go to start the capex cycle. Right now, we need to be talking about the consolidation in the sector and there is enough capacity on plate, which needs to be consolidated, so I think we should look at this question probably after a couple of quarters.

Rahul Modi: Lastly Sir how are you seeing the coal pricing movement happening globally when we are getting into these contracts?

Prashant Jain: It is a very tough call and we do not want to speculate on that, so what we do on our PPA it is totally pass through whether it is the foreign exchange or the fuel price and whatever is open, we continue to work on the dark spreads and for the reasons explained right just now, I think the dark spreads are going to improve and also the merchant volume.

Rahul Modi: Thank you and all the best.

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

Subhadip: This is Subhadip from JM. Two questions from my side. You did mention that we have seen better realization both on merchant and the PPA front if you could throw some more color on how the PPA realizations have improved and also would there be any prior period arrears or something else that has come in, in this quarter, which is the reason why the PPA realizations are better?

Prashant Jain: Jyoti, would you like to answer?

Jyoti Kumar Agrawal: Yes, actually the second question first. There are no arrears which are one-time booked in this quarter. The realizations are better on the short term because of better merchant rates. On the PPA, bulk of our long-term power is on a two-part basis and as far as standalone entity is concerned because of a cost-push with the fuel cost being higher on a year-on-year basis, the realizations went up. The overall fixed cost component remained the same and there was a slight drop on a two-part trajectory under Section 62. In Barmer, we did get an order on BLMCL provisional tariff, which led to an increase in the variable cost on a year-on-year basis. That was also passed on to the discoms under the tariff. So that led to an increase in the overall tariff in Barmer. Hydro, it was more or less the same. There was slightly lower water flow this quarter about 1% or so, but under the two-part trajectory, the tariff also has gone down, so net-net, realization wise the tariffs remained the same on the PPA portion. Of course, on a year-on-year basis, last year there was a fair bit of capacity of Karcham which was sold under merchant and that was not existing in this particular quarter.

Subhadip: Understood. Secondly also I just wanted to understand I think the other expenses component seems to be on the lower side Y-o-Y any particular reason why that has moved?

Jyoti Kumar Agarwal: We have maintained a very tight leash on all the expenses O&M expenses that we have been paying over the years, right over the last couple of years and that is showing now in this quarter. Almost all elements of O&M expenses like repairs and maintenance, stores and spares and legal professional all those aspects have been kept well under control and that is reflected in the financials that you see.

Subhadip: Understood. Thank you. That is it from my side.

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

Inderjeet: This is Inderjeet here. Thanks for the opportunity. My first question is regarding our outlook on the long term versus merchant mix as Prashant was kind of giving out outlook and talks about potentially better dark spreads going forward, is there a change in view that we need to now have some bit of more of the merchant capacity going forward and would some of the inorganic strategy would also be kind of based on that outlook?

Prashant Jain: As I said on short-term and long-term strategy, so in short term, it could be a good idea to have some merchant capacity, but in long term it is not a good idea, so we will be balancing out over a period of time. So at this point of time, it looks like if you see from a three to four year's perspective, it could be a good idea, but in long-term period, it may not be a good idea.

Inderjeet: I just wanted to get your sense as to you do not see the situation on coal improving any time soon?

Prashant Jain: It is a very tough call, but given the kind of complexity, the way Indian Railways and Ministry of Environment and Fores,t and Ministry of Coal operates, I think all of us know that it is a very complex subject and if I want to put up a perspective that if my thermal demand is growing on a gross capacity basis by 15 gigawatt, then you are talking about close to 14% of the domestic coal improvement or maybe more, because close to 380 million tonne coal is supplied to the thermal power plant from Coal India and for 15000 megawatt, the average total requirement will be coming in excess of 13% to 14% of the capacity addition by Coal India for thermal space, which I feel will be a little tall order. If that is the situation, then you will continue to see a difficulty of availability of coal to match the demand growth for thermal sector. Thereby the pressure will be coming more and more to source the coal from imports or else opening up of a new mine by doing a competitive bidding for the private sector, which right now is only at the draft stage for the bidding document. So I am not sure how many months or years it is going to take and then those mines need to be opened and capacity needs to be ramped up, so medium term, it is a challenge. Long term, it may not be a challenge.

Inderjeet: Got it. Thank you.

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

Atul Tiwari: Thank you Sir. Congratulations on a strong set of numbers in the quarter. Sir my question is on the electric vehicle foray, so we heard the interview of Mr. Jindal from Davos and he seemed to indicate that you guys have zeroed in on this technology partner who is a German company, so any color around that will be useful and any other color in terms of capex for this year and the next year on the venture and where we are in the journey?

Prashant Jain: In earlier Quarters we have explained that the total capital expenditures, which we are planning in this particular venture is Rs.6500 Crores over a period of time. We have been building on various capabilities so far, which is in terms of the management capability by getting in more and more experts and building the large team and also working on the product and plant strategy. We have been quite satisfied in terms of the progress what we have made so far and we have been trying to mitigate almost a number of risks which are in front of us because most of the investors, who have been interacting with us have been talking about and raising the concerns that JSW Energy is not having any kind of experience on electric car space and why we are entering into this kind of business where we do not have any kind of experience. So we have been evaluating each and every risk given the kind of the approach JSW Group has been always adopting, in terms of cautious approach of the capital allocation and very conservative approach in terms of putting capital into new ventures. Based on that what I can say that so far we have not made any significant expenditure in this financial year. However, we are very close now to come out with a concrete plan in which we will be mitigating all these risks and the total capital expenditure will remain the same. This year out of the Rs.6500 Crores, it will be less than Rs.25 Crores and which has primarily been for various travel discussions and our salaries of the experts, and going forward, we will be announcing by March quarter, we will be making a complete allocation plan that how much will be the capital expenditure in the next year and year after. I think in March quarter, I will be able to provide you the better number, but during the financial year, it will be less than Rs.25 Crores.

Atul Tiwari: Thank you Sir and any comment on this German technology partner?

Prashant Jain: As I said that by March quarter end, we will be giving you some color on that part also. All options are on the table and we are in the final stage, so we will be announcing very soon.

Atul Tiwari: Thanks a lot.

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

Mohit Kumar: Good evening Sir. The first question is this PLF was very high in October, but it came drastically down in November and December 2018, how do you see the PLF for the next couple of quarters? Have you got the contracts till summer?

Prashant Jain: Mohit, look at this way that our PPA portfolio has been increasing that is one part, so whatever is the PPA portfolio, which has increased that is going to remain stable. Now out of the open 19.5% capacity, as I mentioned in my opening remarks excluding the seasonality on a long term basis for the next year and coming quarters and a couple of next years, you will be seeing higher merchant volume and higher dark spreads, so I will not be able to quantify how much will be the increment, but on a general basis, the trend will be on the improving side.

Mohit Kumar: Have you started supplying 230 megawatt of long term from JSW Vijayanagar from November 1, 2018?

Prashant Jain: Yes.

Mohit Kumar: What is the equity base to calculate the return for the 230-megawatt?

Prashant Jain: I think on the sideline, you can discuss with our IR team, too, which can help you on building your models.

Mohit Kumar: Sir last question. You had also announced something on the solar manufacturing and renewables is there any update, which you can share with us?

Prashant Jain: As we explained in the last quarter call that we have already shelved our plan to enter in any kind of a solar plant manufacturing because of the developments in China. Also, we were planning to do it close to 100 megawatt during this financial year for solar, but after completing close to 12 megawatt within the group, we realized that compared to the kind of return which JSW Energy is looking in this sector, normative return at which competitor's landscape is operating is much, much lower, so therefore, we have decided not to increase further capacity in the solar space. Whatever we have at this point of time, we are happy and satisfied with that. As and when the sanity returns in the market and then there is a level playing field in the battlefield, at that point of time, we will go all out and do work in the solar space, but at this point of time, at the current prevailing rate, we do not get the benchmark return which JSW Energy is looking at.

Mohit Kumar: Sir one question if I may squeeze in. Can you comment on the NCLT process and how it is coming and how it is happening in general? Do you see the bids closing in the next couple of quarters? If you look at the entire stressed asset sector as the resolution, do you see that happening over the next couple of quarters?

Prashant Jain: Look at this way. In the case of power sector, most of the assets were being resolved outside the NCLT under the Samadhan scheme by lenders. Out of the nine assets, which they were trying to resolve under the Samadhan scheme, they could resolve two assets so far and for the balance six or seven assets, there is no consensus among the lenders and there are only a couple of assets which have been admitted so far into NCLT of which one or two assets have gone into liquidation. So now more and more assets are getting into NCLT and I am quite hopeful that the more consolidation is going to take place in the next 12 months than what has happened in the last 12 months. I am very, very optimistic about the consolidation in this sector in the next 12 months because the can has been already pushed to the corner, so hardly there is any choice.

Mohit Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.

Dhruv Muchhal: Thank you. Sir congrats on a good set of numbers. Sir the question was on the consolidation part, would we be open to a complete merchant capacity or we would like to go with a complete PPA or a partial PPA capacity as we approach the NCLT or the bidding route?

Prashant Jain: All this is speculative and theoretical questions, which you are asking at this point of time. Each asset has its individual weaknesses and strengths because of which they are into the stressed situation and individual assets have to be looked at for a specific solution. What I can tell you is two things. Number one thing is that any asset, which we will be venturing into, it will be low cost power because that is the way we can only mitigate the risk of receivables and scheduling of merit order dispatch, so that is the first basic criteria based on which we will looking. The second criteria is that we should be getting a targeted benchmark return and in the worst situation also, there should be enough return which will be available once we correct the capital structure. So that is how we are looking at it. The assets which are fulfilling this criteria - only those assets we will be interested in and based on the analysis, what are the assets which are stressed, I see there are a number of assets, which are fulfilling this criteria, so that is how I would like to put it up.

Dhruv Muchhal: Sure Sir. Thanks Sir. Just one clarification, so this Rs 5.94 average merchant tariff, which you mentioned was it for us the realization?

Prashant Jain: This is the exchange price.

Dhruv Muchhal: Sir can you share what was the realization for us if it is possible in 3Q?

Jyoti Kumar Agarwal: We do not generally share realization, but we have the volume numbers and we have the top line, so you can do the math yourself at an overall company level, but we do not generally give a plant wise or a company subsidiary wise realization.

Dhruv Muchhal: Sir, just last question if you can share any major short-term contracts, which are already tied up for the next quarter or two?

Prashant Jain: It is a way of life. I do not think we have been talking about at which contract we are entering on a month-on-month basis or a week-on-week basis, but in the long-term portfolio certainly it is making sense. What I can tell you and guide for that the merchant volumes, that for 2018 calendar year, what was my merchant volume, 2019 merchant volume will be more than that.

Dhruv Muchhal: Sure Sir. Thanks. All the best. Thanks a lot.

Moderator: Thank you. The next question is from the line of Sanit Visaria from Deutsche Bank. Please go ahead.

Abhishek Puri: Good evening Sir. This is Abhishek Puri from DB. Congratulations for a good set of results. I think from the previous question, I just wanted to understand a little bit since the future forward curve is showing a tariff of Rs.5.5 to Rs.6.5 for the summer season of 2019 amongst those contracts, we just wanted to make sure we model your future PLFs better, so that is why we wanted to understand if you have any capacities tied up for the summer season right now or you will be looking for the merchant market, IEX market?

Prashant Jain: Where is this curve published Abhishek?

Abhishek Puri: Sir, it is not published curve. It is basically a deep bidding, which we normally track and we do a weighted average of all the transactions that are done.

Prashant Jain: I think you can discuss with our IR team on the sideline too, which can help you to build your model, but as I mentioned that we are not giving any kind of a guidance at this point of time in terms of the volume side, but I am very confident that the volumes will be much, much higher.

Abhishek Puri: In terms of the samples I mean, if there is any volume out of 860 megawatt, what has been tied up that will help us in terms of forecasting the Q4 or future quarters as well?

Prashant Jain: Short term, actually, we do not disclose.

Abhishek Puri: Not the tariff, Sir, just the volume?

Prashant Jain: Also the volume, we do not disclose because these are very lumpy and patchy and erratic things and these are the developments, which happen week-on-week and on day-on-day basis, so it is much better to follow a prudent exercise to be consistent.

Abhishek Puri: Fair enough. My second question is on the fuel cost side, so I mean, this quarter, if I look at the stand alone numbers, your fuel cost has declined from Rs 3.85 to Rs 3.75 What will be the reason for this reduction? Is it the coal price and if you can give us the details between Ratnagiri and Vijayanagar?

Jyoti Kumar Agarwal: The coal that we source is from a variety of sources. High CV from South Africa, Mozambique, sometimes Newcastle as well and then low CV from Indonesia and other places and depending upon where the arbitrage is the best, we lock in our coal generally for short term, not very long term. Sometimes if we feel the rates are good, we do it for one or two months maybe a quarter at the most. The reason for that is that the bulk of our tied up power is on the cost plus basis and to that extent, there is not too much incentive to try to optimize the coal less we were to end up at the wrong side, and merchant we believe that the rates will reflect at the end of the day, the cost pushes well right, so that is the policy. We do not generally disclose our coal prices or coal rates or the realized rates because actually, they are very dynamic, right. Like I explained to you, we do not lock in the coal for long term, so we take it as it comes and as a policy, we do not disclose the variable cost. So you will have to work on your model and back calculate and come to whatever assumptions you want to come to.

Prashant Jain: But I will help you on one thing, on a generalistic basis, so look at it this way that whatever is my long term PPA portfolio, there I am insulated with whatever is the Dollar and whatever is the coal price, it is totally passed through. Now in spite of that we have been working on a couple of initiatives apart from the sourcing strategy what Jyoti had mentioned. For the quarter my fuel price in rupees per kg went up by 24% year-on-year whereas my fuel price in rupees per kilowatt hour went up only by 14% and this 10% reduction in the fuel price variable cost is primarily because of the internal efficiency, because we reduced our auxiliary power consumption, we reduced our heat rate, we improved the GCV losses between the as received and as fired or as billed and as fired. So these are the internal efficiencies, which we have been bringing out. All these remains with us and that is what is also reflecting in our better performance, which are due to the very tight internal control other than the O&M cost, so we have been working on that because of which also you are seeing the improvement in the dark spreads.

Abhishek Puri: Apart from dark spreads, I think the fixed cost also looks to be quite low for you given that other expenses have also reduced from Rs.65 odd Crores to Rs.40 Crores in the current quarter, so just wanted to understand? You have answered that earlier in the previous question, but any specific changes, which has led to such a significant reduction in O&M expenses?

Prashant Jain: This trajectory will continue because we have been following very, very tighter internal controls on a lot of things and that is what we have been working on in improving in operating parameters and also the financial parameters. So at all sites we have been putting efforts, and all these are going to continue.

Abhishek Puri: Great. All the very best Sir. Thank you.

Moderator: Thank you.

Pritesh Vinay: Operator, I think we can wrap up the call now.

Moderator: Sure Sir. Would you like to add any closing comments?

Pritesh Vinay: Thank you very much again for your participation. In case there are any followups that come to your mind later on, please feel free to connect with our IR team. Thank you.

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