"JSW Energy Limited 1QFY18 Earnings Conference Call"

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MANAGEMENT: **MR. PRASHANT JAIN - JOINT MANAGING DIRECTOR & CEO – JSW ENERGY LIMITED**
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Moderator: Good day, ladies and gentlemen and welcome to the 1QFY18 earnings conference call of JSW Energy Limited, hosted by Ambit Capital. 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. Deepesh Agarwal from Ambit Capital. Thank you and over to you Mr. Agarwal!

Deepesh Agarwal: Thank you moderator. Hello everyone. On behalf of Ambit Capital, I welcome you all for the 1QFY18 earnings call of JSW Energy. To discuss the results in detail and share the business outlook, today we have with us the senior management of the company represented by Mr. Prashant Jain, Joint Managing Director & CEO, Mr. Jyoti Kumar Agarwal, the Chief Financial Officer, and Mr. Pritesh Vinay, VP Finance & Group IR. I would like to hand over the call to the management for their opening remarks post which we can have the floor open for Q&A. Over to you Sir!

Pritesh Vinay: Thank you Deepesh. Thank you very much. A very good evening to all the participants and thank you for dialing in to JSW Energy's first quarter earnings conference call. As Deepesh mentioned, we have with us today Prashant Jain the new Joint Managing Director & CEO and Jyoti Kumar Agarwal, the Director Finance. So we will start with a few minutes of opening remarks by Prashant and then we will open the floor for Q&A. We would request all the participants to restrict their questioning to two per participant to start with in order to give a fair opportunity to everybody. With that I hand the floor over to Prashant.

Prashant Jain: Thank you Pritesh. Good evening everyone. In the last quarter we have seen power demand in India went up by 5% and we saw certain interesting trends that in some of the states like UP, Chhattisgarh, Maharashtra, Andhra Pradesh and Telangana, the growth had been in double digit – between 10% to 12%. In the last few weeks and that too during the monsoon time we have seen that suddenly the demand has been growing in some of the states at close to 18% to 20% and because of which the merchant tariff prices during the peak hours have also been going up. We saw that in the early morning hours from 6 o'clock to 9 o'clock and evening time from 5 o'clock to midnight the power tariffs are going as high as Rs5.50 to Rs6 in the last week one week time. On round the clock basis, the merchant tariff, which was ruling close to Rs2.40 in June, have now started moving up to between Rs3 and Rs3.30.

In terms of capacity addition, we saw 3,400 megawatt capacity addition in the country in the last quarter and overall installed capacity of 330,000 megawatt. As regards to the company, we saw exceptionally good performance of our subsidiaries. In case of Himachal, due to hydrology, we saw life-time high Q1 generation in both our assets in Karcham as well as in Baspa. Karcham saw more than 17% generation and in Baspa we saw close to 3% and overall 14% higher generation. Deemed PLF of Himachal assets was 78% as compared to 69% in the previous year. In our Barmer project deemed PLF was 86% as compared to 85% in the previous year. In case of

Vijayanagar and Ratnagiri, the PLF was 69% and 71% respectively as compared to 74% and 86% in the previous quarter.

During the quarter, the total long-term sales was 70% and balance 30% was short-term. Last quarter, we saw the coal prices going up, if you see the Indonesian coal that was up by 48%, API4 South African coal was up 39% and we saw rupee appreciated by 4%. We took various initiatives during the quarter which we will continue going forward also. One of them was reduction in the O&M cost. During the quarter, we saw the O&M cost going down by 18%. We have been taking various cost-efficiency measures and we would like to maintain this trajectory going forward. So you will see certain initiatives, which will reduce our O&M cost in time to come. Second initiative, which we have undertaken is reduction in debtor. By the end of the quarter, the debtor days was 71 as compared to 84 days at the end of March quarter. Part of this is attributed to the success of UDAY Scheme – even some of the good states like Haryana and Rajasthan are claiming the rebate – and part of it is our specific thrust on reduction of debtors. This trajectory will continue in the coming quarters and we hope to reduce the debtors even further.

Third: we have been taking specific initiatives in reduction of our interest cost by two methods, one is because of the benign interest rate scenario, we want to do the refinancing of our existing debt. Second is whatever free cash we are generating through operations and also through reduction of debtors, we are reducing our debt. During the quarter, we reduced our debt by Rs700 crore out of which Rs200 crore was normal payment and Rs500 crore was pre-payment. We continue to maintain this trajectory because of these two initiatives. We feel that we will be able to do the refinancing of our debt at lower interest rate and because of the reduction on the overall debt as well, our overall interest cost will go down during the following quarters. By the end of the quarter, our debt-to-equity ratio was 1.28 as compared to 1.29 in the previous quarter. We are taking certain specific initiatives for our untied capacity. As a company, our long-term portfolio is two-third of the capacity. We are taking a specific initiative for our 376 megawatt of the Karcham capacity, which is untied at this point of time. We are in discussion for tying this up under long-term PPA for 25 years subsequent to receipt of CERC tariff order. We have got a very good traction for long-term tie-up of this power and we are very confident that during the current financial year, the entire capacity will be tied up.

In addition, from Ratnagiri, we have one 300-megawatt unit, which is tied up to MSEDCL, Maharashtra Government, and out of balance three units, two units are tied up with various group captive customers. We started discussion with the third-party group captive customers and got very good traction in that. So we hope to see more and more long-term capacities getting tied up in Ratnagiri in quarters to come. In terms of Vijayanagar, we realised that due to the scanty rainfall in the southern region, the power deficit has increased and we are expecting that there should be a short-term PPA, which will be coming up soon. As and when any short-term PPA comes for a competitive bidding, we continue to remain optimistic based on the competitive advantage we have with our cost structure and presence in the area. So the way I see it that our specific thrust will be in deleveraging our balance sheet, improving our cost efficiencies, reduction in interest cost, and increase in the long term PPAs. We see a good traction that it could be 75% by end of this financial year and then we plan to tie up as soon as possible.

From a long-term perspective, our planning is that for Vijayanagar, we will be substituting imported coal with domestic coal and we have secured necessary approvals for environmental side. Now we are working with various DISCOMs, so that we can secure certain PPAs and then we can tie-up coal either in the SHAKTI Scheme or some other mechanism where we can do a blending of the local coal and given the cost structure and our debt structure in the standalone units in Vijayanagar, we are quite confident that in the next 24 months' timeframe there should be a permanent resolution through long-term tie-up of this capacity. I am also happy to inform that the Board of Directors has approved for new growth opportunities in the adjacent spaces as well as a forward integration to enter into electric vehicle segment, energy storage systems for both mobility and static applications along with charging infrastructure. We see this as a very futuristic business where there is a huge opportunity and there is a level playing field available for companies like us. With regards to energy storage system, there is a forward integration for our existing power business. We plan to enter into technology partnership with companies to manufacture batteries both for mobility as well as the static applications in India and we will be facilitating the charging infrastructure, which will be a forward integration to sale our power and also generating the ecosystem for electric cars.

In India, there is a huge opportunity with regards to the electric car. What we have realised is that with the falling battery prices, there is an inflection point, which will be coming very soon, when you will be in a position to produce electric car at the same price as IC engine car. In IC engine car the cost of running is pretty high. In normal electric car, you have a cost of running, which is close to 20% of normal petrol or diesel car and the cost of maintenance is less than 40% than that of an IC engine car. So we are quite excited about this opportunity. We plan that we will be launching our first car in 2020 and we are in a process of discussion for technology tie-up with some partners, which we will be announcing very soon. Now I will request Jyoti to tell about the financial performance.

Jyoti Kumar Agarwal: Thanks Prashant and good evening everybody. I hope by now you have had a chance to go through the press release and the investor presentation, which has been put up on our website. I will keep it very brief. I think, in terms of the financial performance for the quarter, the total income from operations this quarter at a consolidated level was Rs2,232 crore. This was 9% lower than the Rs2,450 crore that we clocked in the corresponding quarter of the last year largely because of lower generation from our coal-fired plants in the standalone entity. The fuel cost this quarter was higher at about Rs1,120 crore. It was 8% higher compared to the corresponding quarter of last year mainly because of increase in the international coal prices. The EBITDA for this quarter was Rs971 crore against Rs1,159 crore in the corresponding quarter of the previous year. This decline was primarily because of the drop in revenues in our merchant capacity and increase in the fuel prices. The finance cost this particular quarter was lower at Rs396 crore compared to Rs429 crore for reasons that Prashant outlined. We have been very proactive in optimising our cost structure both on the O&M side as well as on the financing cost side and you will see continued benefit over the coming few quarters. The profit after tax was Rs217 crore against Rs367 crore and the total comprehensive income was Rs327 crore against Rs496 crore in the corresponding quarter of the last year. The consolidated net worth this quarter was Rs10,696 crore while the consolidated net debt was Rs13,686 crore resulting in a very comfortable net debt-to-equity of 1.28 times. With that I think we would like to open the call for questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Deepak Agarwala from Elara Capital. Please go ahead.

Deepak Agarwala: Good evening gentlemen. My first question is can you help us understand how the foray into the new electric vehicle segment synergises with our existing IPP generation business and how much capital do you plan to deploy over the next two-three years in this new venture?

Prashant Jain: Good evening Deepak. We are a growth-oriented company and we have been continuously looking at various growth opportunities. While we continue to look at the growth opportunities within the power space, which is IPP side, we have been continuously evaluating growth opportunities in the adjacent spaces. Battery storage and charging infrastructure are forward integration for our existing business, which is primarily getting into the electric power storage business. However, in the adjacent space, we realised that electric cars offer huge opportunity. We are a free cash flow company and we envisage total capital expenditure outlay close to Rs4,000 crore over a period of three years, which we plan to fund by a mix of debt and equity of Rs1,500 crore, which will be through internal accruals. So, this will require close to Rs500-crore cash to be deployed every year and we will be having enough resources even after doing that for the growth of our existing IPP business. With the amount of the free cash we are generating, as we explained that during the quarter we reduce our debt by Rs700 crore, we can expect that a similar kind of further debt reduction during the subsequent quarters of the year. You can expect that our debt will be going down by close to Rs1,500 crore during the current financial year. So, we are quite comfortable in our balance sheet and there will be enough resources available to grow in the IPP space as well as in adjacent spaces.

Deepak Agarwal: Because I assume this kind of forward integration is also keeping in mind our equity requirement for the Tamnar I acquisition, which is scheduled most likely in the next year and given the kind of pressure that we are having because of the higher fuel cost, do you think this kind of free cash flow generation is sustainable given the acquisition as well as this kind of expansion?

Prashant Jain: As I mentioned in my opening remarks that we are going to be insulated from the higher fuel prices kind of a scenario, because we are working on two strong strategies. One is tying up for the long term and switching over from imported coal to the domestic coal. So, in that situation, we will have a very stable cash flow. In the next 15 to 24 months, most of our open capacity should be tied up – as I explained that close to 500 megawatt will be done in the next six months itself, which will take capacity under PPA from 65% to 75%, and balance tie up will be done in remaining quarters. So, we are very much comfortable. As regards to our existing acquisition transactions, which we have been discussing, we have been maintaining that both transactions have been moving very slow because of the necessary approvals, which are required from lenders and as we informed in the previous investor call that both in case of Bina as well as JPL, the progress has been a little slow, so that is the situation at this point of time.

Deepak Agarwal: Thanks and I will come back in the queue.

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

Atul Tiwari: Thank you Sir for taking my question. Sir, first just one clarification. You said that the debt was paid to the extent of Rs7 billion, but in the presentation if I see as on March 31, 2017 the net debt was Rs13,384 crore and as of June 30, 2017 it is Rs13,686 crore. So the consolidated net debt seems to have gone up by Rs3 billion, so where is the disconnect?

Jyoti Kumar Agarwal: Over the course of the last quarter, we have actually taken fresh debt of about just a little less than Rs1,000 crore and then we have prepaid about Rs500 crore of debt and re-paid in terms of the normal repayment cycle close to about Rs200-250 crore of debt and that explains the net accrual to the net debt by about Rs300-odd crore.

Atul Tiwari: Sir related question is that obviously PAT, deprecation in this quarter was easily Rs500-600 crore for the consolidated entity and then you mentioned that debtors have also come down, so that would have released some cash. So ideally we should have expected consolidated net debt to have gone down and that was happening even last year. Despite muted profit after tax, company's net debt was declining every quarter, but that has not happened in this quarter despite reduction in receivables that you mentioned. So can you throw some light on why the debt went up?

Jyoti Kumar Agarwal: No, you are absolutely right. The debt had to go up because for the Bina transaction. If you recollect there was a guarantee that we had given for a bridge loan that JPVL had taken and because we had to extend the SPA beyond May 31, 2017, that loan had to be repaid because the bridge loan is not allowed to be rolled over as per RBI guidelines. Now we did have a non-funded exposure to that transaction in any case and to that extent we converted the non-funded exposure to a funded exposure and that required additional debt to be taken. In terms of the deleveraging, we are committed to the process of deleveraging as I explained to you. Despite a Rs1,000-crore addition to the debt in one quarter we have already repaid close to 70-75%. Now after June 30, 2017 also we have repaid/prepaid a fair amount of the debt and you would appreciate that these are mostly loans, which have definite payment dates on which you can only repay, otherwise you will have to a prepayment penalty. So, we have identified a very robust plan of utilizing our free cash, which we are generating from our business as well as collecting from our debtors to reduce our leverage and you would see improved leverage ratios going forward.

Atul Tiwari: Sir how much was this Bina debt that you repaid?

Jyoti Kumar Agarwal: No, for the consolidated company we have prepaid about Rs500 crore and we have repaid about Rs200 crore. So overall Rs700 crore of debt has been paid.

Atul Tiwari: This increase that you explained happened because you converted some norms for debt exposure?

Jyoti Kumar Agarwal: This was the Rs1,000-crore guarantee that we had for the Bina transaction, so the entire Rs1,000 crore got converted into a fund-based exposure.

Atul Tiwari: So that means out of the transaction value if I remember correctly of about Rs27-odd billion EV of Bina transaction you have already kind of prepaid Rs10 billion, so if Bina transaction goes through, you will have to pay only Rs17-odd billion is that the right understanding?

Jyoti Kumar Agarwal: That is the right way to look at it. The other way to look at it could be that, the asset does carry a debt of about Rs1,700 crore already. Now of course, if that asset comes to us, then the debt will also come to us because banks will be refinancing their debt and to that extent there is no further fund required from our side to close the transaction. And I think somebody else had an earlier question around Tumnar and in terms of whether we have sufficient cash flow generation to do these acquisitions. Now you must appreciate that these acquisitions that are happening are all sort of either stressed assets or opportunistic acquisitions where the flock of lenders would be more than happy to move the debt to our balance sheet and I do not envisage too much of an equity investment for doing any of this transaction. So, whatever cash flows that we will be generating over the next three years, we can utilize a substantial part of that cash flow for growth oriented opportunities and the entire EV and associated business does present that opportunity.

Atul Tiwari: Sir my last question on the electric car, so just to confirm you planned to get into not only the battery manufacturing, but the manufacturing of full-fledged electric cars is that the right understanding?

Prashant Jain: That is right.

Atul Tiwari: So, don't you think it will take much more capex than Rs4,000 crore? I do not understand much about the auto sector, but manufacturing a full-fledged car will need developing the entire ecosystem of suppliers and assembly line, etc.

Prashant Jain: So, we have done our basic working and it will be calling for the investment in order of Rs4,000 crore only.

Atul Tiwari: Thank you.

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

Sumit Kishore: My first question is in relation to a comment you made on Ratnagiri where you are seeing good traction in tying up capacity with third-party group captive customers. Could you elaborate on that and over what timeframe do you see that happening? Has the required policy clarity for group captive really come through?

Prashant Jain: We have two units of 300 megawatt each, which are running under group captive scheme. So there is very much policy clarity and also there is a draft notification, which has been put up by the Ministry of Power for further tightening the norms. Our existing structure already complies with that and the future structure will continue to comply with the future guidelines of group captive scheme. I cannot disclose the name of the companies due to the confidentiality reason, but what I can share is that we have got a very good traction; number one. Number two; during the current quarter – not the quarter gone by – some of them have already been taken on board. So, you will see at the end of the quarter that more and more number of people coming up into the stream and we are confident that we will be able to tie-up close to 125 megawatt, which is remaining in these two units on a group captive scheme.

Sumit Kishore: On the earlier question for the Rs10-billion debt that is there on your books in relation to Bina, if by December 2017 the transaction does not get completed this amount would be received back by you?

Prashant Jain: They are continuously servicing the loan and it is a monthly interest, which we receive; and in case transaction does not go through, this money is receivable and we are quite confident that there is no issue about it.

Sumit Kishore: The interest rate is in line with the usual?

Prashant Jain: Yes.

Sumit Kishore: Thank you so much Sir!

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

Inder: This is Inder from Macquarie. My first question is on this coal, given the coal prices have gone up, how much of that increase is already factored into our 1Q numbers and how much you think is yet to come, which is likely to impact in 2Q?

Prashant Jain: Let us look at this way – the high coal prices for our units which are based on imported coal does not really impact JSW Energy because most of the capacity, which we are running at this point of time is on long-term tie-up where the fuel is passed through. So the real impact comes when we are entering into short-term PPAs based on international coal prices. At this point of time, the generation for short-term supply is miniscule, so currently does not impact anything; however, going forward when we are entering into a short-term PPA, for example, for Vijayanagar capacity, then it will depend upon what kind of price we are entering into the contract and what will be the fuel prices. If you look at quarter-on-quarter, in the current quarter the prices of coal are a little higher than what they were in 1Q, but it is in single digit at this point of time and there is some currency appreciation also. But this is something, which is very little predictable. We feel that the way we are structuring the company in couple of quarters, in terms of fuel mix as well as the final sales mix, JSW Energy will be insulated from the vagaries of the international coal prices. You will find the business will be having stable cash flows based on the domestic coal and with a very clear visibility on the long-term sales.

Jyoti Kumar Agarwal: If I may just add to what Prashant said, we actually have been increasing our basket of countries or sources from where we can buy the imported coal over the last couple of quarters and we have actually locked in for Ratnagiri the coal required up to December-January, with arbitrages between mix of high CV as well as mid CV coal, lot of it is Indonesian; at levels which are actually very, very in the money today. So till December at least, for the current visible schedule, we will have very minor impact of this increase in the international fuel prices that we have seen. Of course, if prices are to go down, we would have a negative impact, but thankfully that did not happen and as Prashant was saying that we are proactively looking at doing a blending of coal not just different varieties of international coal, mid CV, low CV, high CV; but also now we have the capability to do blending of domestic coal. So, we feel very very comfortable in terms of our ability to manage the fuel prices going forward.

Inder: Regarding this the basket, you talked about and kind of hedges that we have created is this a change of policy again because a few years back, we consciously kind of reduced the buyers' credit we had in the coal because it exposed us to the currency and the coal price variations. Now we seemed to have kind of re-looked at that policy – if you could just update us on that?

Jyoti Kumar Agarwal: In that what I was trying to tell you was more around the coal hedging and not the FX hedging. The FX hedging policy continues – we do 100% hedging of all our foreign currency liabilities. Of course, there again we have done a little bit of tweaking that instead of hedging through forward, we have been trying to hedge through option because that makes more sense in the current environment. The rupee has been quite stable. But what I was trying to explain to you was in the coal sourcing bid, there are these various blends or grades of coal from different geographies, which we continuously monitor and if there is an arbitrage we exploit those arbitrages and we have kind of locked in the price through coal hedges. These are not FX hedges, but coal price hedges in the international market and that explains why we are not going to get affected at least for this calendar year.

Inder: Sure, but the last question is on this electrical vehicle kind of a foray. Now we have set a fairly ambitious target for 2020 to kind of roll out this programme. Is this Rs40 billion the total amount of capital because it sounds too low for such a venture, so is that all the money or you are likely to put in more, if needed? Do we already have some kind of a partner in mind who has committed to put in large amount of money, are there any other JSW companies involved in this? A little bit more colour on that would be truly appreciated and that is it from my side?

Prashant Jain: I do not know why you feel that this is too low investment. If you look at the investments, which are being made by the companies in the auto sector are in the same kind of order and so we are very much confident of the product, which will be rolled out with this kind of investments. However, we will be having a phased approach – probably you may be having a very large kind of roll out plan in your mind. The way we think is that, to start with, we are going to launch with one model and then over a period of next three-five years there will be many more models. Of course, we are in discussions with some technology partners and there will be technology tie-up where you will be paying certain kind of a royalty, certain kind of a lump sum fees also. And there is a sharing of cost because there is no upfront cost of development of a EV platform and development of the car design. You will be amortising that by way of royalty, which will be paid over the life cycle of the product and probably that is where you are having a disconnect between a capital cost of building the plant and infrastructure and the capital cost of developing a car and design and a platform.

Inder: Thanks a lot.

Moderator: Thank you. The next question is from the line of Anirudh Gangahar from Nomura. Please go ahead.

Anirudh Gangahar: Thank you for the opportunity. First a clarification you mentioned that both Bina and Tamnar are going slow. Publicly there have been lots of interviews in which we have not been very optimistic about Bina and now we have given them virtually the consideration as well. So, what is the status specifically between Bina and Tamnar if you can just clarify? Second question from my side would be on the eligibility of Vijayanagar getting coal from SHAKTI – it would qualify under what basket – as an imported coal project or somebody who has got domestic coal; and has any amount of domestic coal blending already begun or it’s still some way away? Thank you.

Prashant Jain: With regards to Bina and JSPL, again I will say that this is subjected to various condition precedence, which is to be complied by the counter party and primary condition is the lender approval of those companies and that is where we are not getting a very good colour at this point of time; and that is the reason we are saying they are on the slow burner. However, we see that both the organisations are committed towards it, but the probability of getting the transaction through is going lower and lower. With regards to Vijayanagar, you need to understand, at this point of time, if you want to participate in the SHAKTI Scheme, any company can participate, which is having the environmental clearance to source domestic coal and the only condition to source coal under the SHAKTI Scheme is either it should have a valid PPA or it has to enter into a PPA within 24 months timeframe. The way we are seeing the demand structure as well as the merchant prices, we are expecting that very soon there will be an increase in the PLF of the existing capacities and if you see the merchant market the total market size is close to 8,000 megawatt. Out of this 8,000 megawatt, close to 3,000 megawatt right now is coming from hydropower, which goes away by the end of September. 900 megawatt is coming from Teesta Power, 400 megawatt is sold by JSW Himachal. Then there is the Himachal Government, which generates the free power that it is selling. So like that there is a lot of power, which is quite seasonal and secondly the demand is picking up. As the demand picks up, then the discom – which are taking advantage for the last 18 months through a short-term tariff because continuously more and more capacities were coming up and then it was creating a problem in the merchant tariff – will see this area is get dried up. We are quite confident that in the next six to nine months, discoms will start again entering into PPA through a competitive bidding, which has been put on backburner for quite a long time. However, I do not see that the power tariffs in the merchant market on RTC basis are going to be more than Rs3.25. There are the peak power rates right now, which are going up. Eventually the discoms will enter into the long-term PPAs. As soon as the discoms start entering into the long-term PPA, anybody can bid for it. So we will be bidding based on domestic coal and we are quite confident that we will be competitive.

Anirudh Gangahar: Sir, just to clarify, we will be bidding and we are definitely confident that in the next 24 months we will be able to get that, so we will be using that particular window in SHAKTI?

Prashant Jain: Yes.

Anirudh Gangahar: Thank you. I have got more questions, but I will go back into the queue. Thank you.

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

Abhishek Puri: Continuing from the previous question on the Vijayanagar plant, have you done any basic working in terms of how much will be the costing for if you get a coal linkage from the nearest mine, how much was the overall cost reduced from Rs350, Rs360 what the variable cost today is and secondly how much capex will be required to adjust that domestic coal?

Prashant Jain: It can be done without any meaningful capex. Normally we are doing less than Rs150-crore regular capital expenditure annually in all our units. So whatever capital expenditure is required for this will be part of that. And you will understand that it is other way around – at what price I am able to do the long-term PPA in the case one bidding. You know our plants are quite a lot depreciated and then we have a very limited amount of debts. So, our fixed cost will be substantially lower and our variable cost will also be going down because we are working on mines from the western coal fields and where there will be availability of coal as well and it will be connected by rail. So, we are quite optimistic.

Abhishek Puri: My second question is on the other income. It has gone up quite a bit this quarter whereas we have repaid a large amount of debt as you mentioned. So is there any one-off in this current quarter that is one and second on your annual report, I was looking at page 145. There is a contingent consideration of Rs636 crore to JPVL and there is another Rs300 crore for Karcham. So both these amounts are related to Karcham or is it also for Bina this Rs636 crore?

Jyoti Kumar Agarwal: Yes, so on the other income, this particular quarter we have given a loan of Rs1,000 crore to JPVL and as Prashant mentioned that is being serviced, so that additional income had been booked under the other income and also we recovered some late payment surcharge for our hydro unit the tariff order had come. So some of the old receivables became due and there is a carrying cost, which we recovered against that so that has been booked in other income. That explains the increase in the other income.

Abhishek Puri: How much will be the amount Sir?

Jyoti Kumar Agarwal: It is part of the other income. We would not like to disclose the details of the various components of the other income, but that explains the increase in the other income that you alluded to. Now in terms of the contingent consideration, yes we are the first one actually relates to the overall acquisition of both the units and there are many components of it, some of it is available in the balance sheet and the second Rs300-crore contingent consideration is essentially relating to Karcham only. So one of the reasons why we are very confident that we will recover our dues from JPVL is that there is a contingent consideration, which is also available in this setup although we feel that if the transaction does not happen given our discussions with them, the interest as well as the principle will be serviced in normal cycle in any case.

Abhishek Puri: I will join the queue for further questions. Thank you so much.

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

Murtuza Arsiwalla: Sir, two questions from my side. In terms of the short-term sales could you give some colour on how much of the sales is through day ahead market exchanges versus most out of medium-term contracts and what is the tariff differential? And in terms of visibility for Vijayanagar, where do we stand – are we going to go ahead and sell in day had kind of transactions on the exchange or we have some short term PPAs in place? And the second question is on Rajwest numbers – if I look at the numbers from the presentation, they appear weaker this quarter on revenue, EBITDA, PAT levels despite almost, sort of equivalent generation. So, is there any one-off in the Rajwest numbers – any adjustments that need to be made?

Jyoti Kumar Agarwal: Let me address the Rajwest question first. In Rajwest there is a tariff order from RERC that has come and while is very similar to the earlier tariff order and many of the matters which have been disallowed are already pending adjudication at APTEL as well as Supreme Court. But based on the current tariff order we felt that there is a need for some bit of provision given the gap between what we had asked for and what is allowed, there is some portion which is better to kind of provide for as the visibility could be lower depending upon how the APTEL and the Supreme Court take a view. So, we have provided for that in this quarter. The entire difference between last quarter and this quarter would largely give scratch to that provision.

Murtuza Arsiwalla: This would come at the adjustment from the revenue line itself?

Jyoti Kumar Agarwal: Yes it would come as an adjustment from the revenue?

Murtuza Arsiwalla: Would you be able to quantify how much that would be?

Jyoti Kumar Agarwal: Well you can do the maths yourself. You would have an understanding of what the revenue would be for this quarter versus what the revenue that we are seeing and that difference entirely is explained by that provision. The first question I will ask Prashant to address.

Prashant Jain: With regards to the short-term sales, while we continue to look at the merchant market and as and when we can sell in a window, which is more than our variable cost, we try to do that and then you can see that if the prices in the merchant market goes up, we certainly capitalise those opportunities. However, we do not like this kind of situation and as I mentioned in our strategy that we are converting and we are converting meaningfully very soon. So, as soon as we convert this opportunity will not be there, but at this point of time we are capitalising on whatever opportunities we are having.

Murtuza Arsiwalla: Any sense in the quarter gone by, how much would be exchange versus sort term PPAs within the short-term?

Prashant Jain: We do not get into that detail because you know that it is something, which we actually do not like and we would not like to sell anything in merchant market.

Murtuza Arsiwalla: Alright. Thank you so much Sir!

Moderator: Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Thanks a lot for taking my question Sir! If I understood correctly you have seen both for Ratnagiri and Vijayanagar we have got the approvals for blending domestic coal, is that right?

Prashant Jain: One place (Vijayanagar) we have already secured the environmental clearance, another is in pipeline – we will get the necessary approvals probably in the next few days only.

Pulkit Patni: Approximately what would be the distance that coal will have to travel to both these locations, if we were to get everything in place?

Prashant Jain: I think you have a lot of opportunities from different places all over India. So, we do the value metrics and based on the value metrics, whatever is the best option we do that. And those are costs, which will be passed through when you are doing the PPAs. In case 1 bidding, the first year tariff has to be competitive. So, overall tariff has to be competitive and that is what we will be working on.

Pulkit Patni: Sir, my second question is on this electric vehicle. Just wanted to understand is there any sort of synergy whether it is may be extra land that is available with the existing plants – we can set a factory, etc., that will help a new business start-up because we are right now power generator. Moving from there to autos – any particular reason or any benefit that you will get as part of the structure?

Prashant Jain: I explained before that we have been a growth-oriented company and then we have been looking at various opportunities. So power side is one and this is adjacent to the power. As such from the land and other things, there is no synergy, but we like this business very much and there is still very huge opportunity and that is what we would like to capitalise on.

Pulkit Patni: Sure. Thank you so much Sir!

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

Mohit Kumar: Sir, the profit for the Himachal Baspa Power Company has almost doubled in the quarter, is it mostly attributable to late payment surcharge?

Prashant Jain: No, it is primarily because of the excess generation and because our overall generation is at a life-time high (in Q1) – it is higher by 14%.

Mohit Kumar: On QoQ number right now the profit was Rs27 crore, it has gone up to Rs163 crore – will the generation explain the entire thing?

Jyoti Kumar Agarwal: Yes, this is a very high finance leverage and operating leverage business as you know right, and there is no fuel cost in case of Himachal Baspa.

Mohit Kumar: Is there one-off in this number?

Prashant Jain: No, there is no one-off, this is largely explained by the hydrology.

Mohit Kumar: Sir, the second question pertains to Ratnagiri. You had said that you are trying to tie-up 125 megawatt and if I am correct, around 425 megawatt is open right now. So, you are trying to tie-up entire 425 or is it 125? Are you scouting partners across the India and it is restricted to the Maharashtra state? Are we looking multiple partners or only one?

Prashant Jain: So at this point of time there are two units of 300 megawatt each, out of which 125 megawatt is still open. We are not able to tie-up the other unit at this point of time. We are having a firm visibility that we will be completing tie-up by the end of this financial year for this 125 megawatt.

Mohit Kumar: Are we envisaging any capex to meet the environment norms in this fiscal year?

Prashant Jain: No, we continue to spend between Rs100-150 crore on our normal capital expenditure for continuous upgradation of our plants across our subsidiaries on a consolidated basis and we continue to maintain that.

Mohit Kumar: Do you mean to say that we are compliant with all the norms across all the plants?

Prashant Jain: So, if you know that in our Ratnagiri we already have FGD installed when we commissioned our facility – so, we do not have that implication in Ratnagiri. In case of our Barmer facility, it is basically CFBC boiler and that technology is fully compliant. Then in case of Vijayanagar also we are using the mix of the gas and coal because of which it is becoming fully compliant. So we do not see any capital investment from SOX side. However, we do see, from NOX side there could be miniscule kind of a capital expenditure, but that will be taken care of in our normal capital expenditure over a period of three to four years.

Mohit Kumar: Thank you Sir!

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

Dhruv Muchhal: Just wanted to understand a bit more on the electric vehicle venture. The thing is, although I am not an expert in autos, if you see globally, the sale is pretty limited for premium vehicles and we are targeting by 2020, so a bit optimistic and also what is our competitive advantage versus say the other auto companies in India because they have a well established distribution network and how do we plan to because if they can anytime come into the electric vehicle segment and probably have a much better advantage than us, so how do we look at that?

Prashant Jain: Yes, that is a very good question Dhruv and if you know that then if you track auto sector then you will know that the maximum percentage of the growth is happening for the cars which are in the range of Rs10-17 lakh. And out of 3 million cars which are sold every year, 70% are below Rs10 lakh or probably even Rs8-9 lakh and balance cars are in the premium segment. But the largest growing segment is Rs10-18 lakh. If you see that the current GST, and even prior to GST, the cars which are more than 4 meter long and more than 1500cc, the tax is 43% including the cess, which the Government is also planning to change to pre-GST level of 53% and on electric car there is a flat GST rate of 12%. So, there is a 30% GST difference which is there. So that is how the situation is at this point of time and probably that explains what you were asking.

Dhruv Muchhal: Sir, this is further to it, just to understand because electric vehicles will require a lot of infra, which is currently not invested in, so if you have to say scale up or start even by 2020 there is no incentive or anybody to come in and set up an infra for electric vehicles unless the Government comes out with the regulation or something. And even if it starts it will probably take a lot of time. So, just wanted to understand why so early or probably is it not that early – just wanted to understand could it be a few years later when the market was much more developed, so why now, just to understand how you are thinking about that?

Prashant Jain: I must tell you that, very soon you will be seeing inflection point and probably few years down the line the car with the IC engine will be having the same price tag, which is of an electric car and if you get a car, which is priced similarly where your cost of operation or cost of running is only 20% of a petrol or diesel car, the customer will be rushing for it. The range anxiety as well as concern with the charging infrastructure is a misnomer. The moment there is economic rational these are the very simple things, which happens very quickly. Our cars are parked more than 16 hours a day either at our work place or at our home and in fact on the road it will be less than 8 hours. Your car can get charged at your home or in the workplace without any kind of issues. Second thing is that I see all the petrol stations getting converted into the charging stations. With a super charger, a car for 300km can be charged with a technology, which is available today as we are speaking, in flat 20 minutes time and with the technology which is under development, by the time we are going to launch the car, a full range car can be charged in even less than 12 minutes time and that is the time, which you take when you go for filling your petrol or gas and which is further getting improved. So the inflection point for us or what we see is that you will be seeing the battery price is falling so rapidly that the car will be available at the same price as the cost of an IC engine car and that will be explained by the tax differential as well as the capital subsidy, which is available. You saw that happening in the solar power that power available from the solar system is today even cheaper than thermal power and it is only because of the investment, which took in the solar cell manufacturing in China and that is what is happening in battery manufacturing across the globe. If you see today, more than 35 gigafactories are under construction and imagine the kind of capacity in energy storage space coming up in the next two years.

Dhruv Muchhal: Sure Sir, lastly more to the near term, you said you are looking at group captive model for the Ratnagiri plant. So is the model RoE based or is it on bidding based or how does it work? Just want to understand how the economics should work because there could be other domestic supplies – because you are dependent on imported coal where price will keep fluctuating. So the person who has to come to us will also look at probably domestic coal based plant, which is probably ready to supply. So just to understand the economics, because I think the Government has recently introduced surcharges and is also discouraging group captives. Will you require approvals from the regulator or the State Load Dispatch Center or the Maharashtra regulator, something like that?

Prashant Jain: So it is a prevailing legal framework. Even the existing group captive is subject to various approvals and we are working within that legal and policy framework and whatever changes Ministry of Power has notified as a draft notification we are also fully compliant on that. We will be preserving our margins while we are entering into this kind of scheme.

Dhruv Muchhal: Sir, just want to understand currently we sell to JSW Steel, which is an RoE model, so it will be similar to that?

Prashant Jain: Yes, you can say that. It will be little different, but we will preserve our margins.

Dhruv Muchhal: Sure Sir! Thank you so much.

Moderator: Thank you. The next question is from the line Anand Agarwal from BlackRock. Please go ahead.

Anand Agarwal: Thanks for the opportunity. Apologies I joined a bit late, so the question might be repetitive. On the JP Bina loan that we have given Rs1,000 crore what gives us a confidence that you will get this money back if the deal does not happen because there would be a lot of lenders for JP right and do we have seniority as a lender yes?

Jyoti Kumar Agarwal: Yes. I think, when this loan was given there were several rounds of discussion both with JP as well as lenders and there is an understanding that we will get priority treatment to this loan in terms of servicing. Also you might be aware, they are not really servicing their other debt, but this loan has been serviced. It has been more than two-and-a-half months now, and that is a good reflection. Proof for the pudding lies in the eating, so this is being serviced and I can tell you, I do not have to call them for servicing the loan. Third as somebody pointed out in the call, there are dues payable to JPVL and some of the dues are contingent and one of the contingency for that payable is actually the tariff order of Karcham, which has already come. And in that order there are some of those contingent payments which will actually become payable plus there are some elements of the order, which will make the capital cost even higher in terms of approval based on certain submissions in the time of approving. We have good visibility of that coming through, which will make the contingent payable go even higher and there are some other type of contingent consideration, which we are working along with JP. We benefit from that, for example, if the capacity approved is higher by 91 megawatt and stuff like that. We do have security for the loan and not for the full loan, but partial security for the loan and based on our current visibility we feel that some portion of this loan will definitely get serviced till December and depending upon what happens in December whether we continue to have visibility on the SPA and roll it out further or not, whether we bring the SPA to an end, but this debt will then again get refinanced by JP and we will come out. So, we are very, very confident that this loan will be taken out if the transaction does not happen.

Anand Agarwal: That is as per contract or that is just our understanding that it would be taken out?

Jyoti Kumar Agarwal: There is a contract Anand, you would appreciate that you would not give a Rs1,000 crore loan just by means of an understanding. There is a proper valid contract, on top of the contract there is also the understanding.

Anand Agarwal: Thank you.

Moderator: Thank you. The next question is from the line Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia: Thanks for taking my question. Just on the EV business, the most companies on the auto side probably suggest that the margins for EVs are probably lower than the IC engines, which could be 7% to 8% versus the mid-teens that you would do on IC. So for this business what kind of ROC are you looking forward to and secondly on the capex side when you suggested a total capital employed of Rs4,000 crore. So, any softer data points in terms of how much manufacturing are you putting in versus capacity charging infrastructure – if you could share any of that details please?

Prashant Jain: So, do not just look at it in terms of EBITDA margin for an auto company. The product is sold at anything between Rs5 lakh and Rs20 lakh and then imagine if I say that the average car sales price is Rs10 lakh and if there are 200,000 cars then the turnover could be 20,000 crore and if you look at various auto companies their ROEs are more than 20%. So you cannot compare the kind of a return, which it can generate as compared to the power IPP projects. It is really disproportionate returns! So, the focus is to tap on the kind of a potential opportunity and the timing – which some of the callers have been talking about that we are we too early – but we feel that we are just in time. While some of the players are in denial mode, only the players who want to be into the destructive kind of a technology they could capitalize on this kind of opportunity. So the focus will be to deliver a very good product, which is designed for Indian consumers and for Indian conditions and give that kind of experience to them. Then you will see, the companies who are really successful to deliver that, the returns are disproportionate, which you cannot think in power sector.

Girish Achhipalia: Any break-up on the capex side that you know in terms of softer aspects like how much would be capex on plant and machinery, how much infrastructure charging points, etc., you put in?

Prashant Jain: We will do it in due course of time. At this point of time I can say that the majority of this expenditure will be in FY19 and FY20.

Girish Achhipalia: Thank you so much Sir!

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

Rahul Modi: Couple of questions. Firstly, which states are we currently in discussion with to sign PPAs for our Karcham Power, which is open?

Prashant Jain: We will disclose at right point of time, but at this point of time we can inform you that we have advanced stage of approvals.

Rahul Modi: In terms of now correctly obviously, the PLFs for our Vijayanagar plant has dropped after the short-term PPA has ended. So currently whom are we selling to? Is it purely on merchant on day ahead market, how are we scheduling that?

Prashant Jain: Yes, whatever is being sold is to merchant and some on the PPA, which we are having with JSW Steel. At this point of time if you are seeing recent days' data, the majority is going in merchant to capitalise in the recent higher prices.

Rahul Modi: Just wanted to check one in terms of your foray into renewables and what is your thought and secondly in terms of acquisition because now a lot of thermal based assets, which eventually the banks have to offload may come for a significant discount, so how are we looking at that also in terms of moving ahead?

Prashant Jain: In case of solar I think there are two spaces, one the solar park. With the kind of tariff we are seeing, I think we have a little bit of question mark on the ability of the developers to deliver those projects; and if they deliver, to sustain the kind of a return which they are expecting. Probably some of the developers have access to very cheap capital and they have a very low return expectation; which probably companies like us will not be able to match. So, we are a little bit doubtful about that space. However, we are evaluating the solar rooftop space at this point of time, and we are in a process of building the capabilities internally. Then there are certain opportunities within the group where we would like to build those capabilities first and deliver those projects and then subsequently to the third parties.

Rahul Modi: Lastly, on the acquisition of super-stressed assets at very low valuation, so what is your thought on that and are we looking only plants with PPAs or even without?

Prashant Jain: We saw so far that assets are not super-stressed because the valuations are not really super valuation. As I mentioned that for us the new normal price for power is close to Rs.3 and if we find some right assets where we can produce power at Rs.3 or lower, then we are confident that PPAs will also be possible. So, that is what our strategy is. As soon as we find any right opportunity we will certainly be looking at it and we have the appetite to close the transaction very quickly given the size and nature of our balance sheet.

Rahul Modi: Thank you Sir and all the best.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to the management for closing comments.

Prashant Jain: Thank you very much everyone for taking time out for joining us today. As I mentioned, we are seeing a lot of traction going forward in power space and we are quite confident that for our existing business of 4.5 gigawatt capacity, there is enough visibility for stable operations going forward. We continue to look forward for various growth opportunities in the power space, but we are quite excited for the growth opportunity in the adjacent space and we will continue to look forward to share more and more with you and time to come. Thank you.

Moderator: Thank you. On behalf of Ambit Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.