"JSW Energy Limited Q1 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the JSW Energy Limited Q1 FY2019 Earnings Conference Call, hosted by ICICI 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. Rahul Modi from ICICI Securities. Thank you and over to you Sir!

Rahul Modi: Thanks, Stanford. On behalf of ICICI Securities, I welcome you all to JSW Energy's Q1 FY 19 earnings call. Representing the company, we've got Mr. Jyoti Kumar Agarwal, Director Finance; Mr. Sharad Mahendra, Executive Vice President, Energy Business; and Mr. Pritesh Vinay, Vice President – Finance and Group IR. With that, I would like to hand over the call to Pritesh. Over to you. Thanks.

Pritesh Vinay: Thank you, Rahul. A very good evening to all the participants. On behalf of JSW Energy, we welcome you to the First Quarter Fiscal 2019 Results Earnings Call. I'm sure by now you have had a chance to go through the results, the press release and the presentation, which is already uploaded on the website. I'd like to make a housekeeping announcement at the very start. Prashant Jain, the Joint Managing Director and CEO has had to step out for some urgent meeting. So he is not able to join in for this call. But we are represented on the call by the management team of JSW Energy, represented by Mr. Sharad Mahendra, the Executive Vice President of the Energy Business; and Mr. Jyoti Kumar Agarwal, Director - Finance. So with that, I hand over the floor to Sharad for his opening remarks and post that, we can move on to Q&A.

Sharad Mahendra: Good evening, friends. Once again, we welcome on behalf of JSW Energy, all the participants. This quarter, April June quarter, this year has been an interesting quarter in terms of many things whether it is related to power demand, fuel, renewables, lot many things have happened, and just to give a brief as to regarding the power demand, the power demand continues to grow in the country and during this April June quarter also the demand growth has been close to 5%, exactly 4.9%, which is marginally lower than what the growth we witnessed last year in the quarter, which was around 5.1%. But apparently it looks that the demand is likely to continue to grow. And this has been in this quarter primarily driven by renewable and thermal only because hydropower generation has been lower due to lesser water flow this year, and there has been a significant decrease in the hydro generation close to about 19% during quarter 1 over the corresponding quarter. Also another significant thing, which was witnessed is the growth in the merchant power, which has been 18% higher merchant power as compared to the corresponding quarter and sequentially if we compare, it is 30% increase and also both in terms of volume, which we have seen just the growth and in terms of tariff also it has seen a significant increase in the tariff, which has been the average tariff during the quarter in the merchant sale has been INR 4.13 as compared to INR 2.76. But we have to make a note on this significant increase. This has been offset to a large extent maybe in totality due to the significant increase in the fuel price also, the coal price. Because the coal price increase has been close to 33%, the API 4 index as compared during the quarter as compared to the corresponding quarter. So all these things put together it appear that this growth of 4.9%, which has been there almost close to about 4.7% has been from the thermal business and almost 16% has been the renewable share increase.

As related to the highlights of during the quarter for JSW Energy, as communicated to you during our last call, our 100% of the hydro capacity is now tied up with addition of 200 megawatt to Punjab effective 1st April 2018. And our Unit II of Ratnagiri plant also has been taken into group captive, and which is again, 300 megawatt, but this capacity utilization under group captive may happen in next 12 to 18 months as and when because the demand increase from our captive customers will be gradual in next 12 to 18 months.

Another thing has been that our PLF in thermal, our PLF has been 74.3% in Q1 as compared to 67.5% in the corresponding quarter. And this has been mainly the reason for this increase is that there has been a higher demand in Rajasthan. Rajasthan is one of the states, which has shown one of the highest demand growth, close to 15%, during Q1. And also the merchant sale in Ratnagiri has increased significantly. So all these factors put together, our thermal PLF has shown a significant increase. Hydro though, of course, there is only 51.2% as compared to 78.4%, which I told you has been because of the much lesser water flow this year in Himachal, in Sutlej basin, which has overall, our PLF has been 69.8% thermal plus hydro as compared to 76.3% in the last quarter.

A small addition in our renewable also, we have entered in group captive with various group captive customers we have added. Maybe we are talking as of now, we have commissioned almost 12.1 megawatt of solar rooftop and ground mounted power. This is what the brief about our performance and what the market outlook is. Maybe now, I will just request if whatever questions are, we can ready to answer. With us, our Director of Finance, Mr. Jyoti Agarwal is also here, who will like to address the questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: Good evening Sir. My question is around the standalone realization for the quarter, which is about INR 4.4 a unit. So of the total 2,992 million units of standalone net sales, only 1,147 was in the short term. My sense is that, for the PPA units or the ones which are under a captive arrangement for Ratnagiri, the tariff shouldn't be over INR 4, please correct me. And even if we take INR 4, the implied short term realization for the entire quarter appears to be INR 5 or even more. So could you share some color around this. And what kind of realization should we be looking at?

Jyoti Agarwal: Sumit, look, as far as our long term power tie up at Ratnagiri is concerned, other than unit number I, it's under the two part tariff mechanism under the group captive. So variable cost is essentially a pass through, and we recover our fixed cost based on 15.5% ROE. This year the tariff did go up largely because of the variable cost increase. In terms of actual realization, we have never guided in terms of actual realization for the company and definitely not at the unit level. So we would not like to go in there. On top of it, we were selling merchant power in Ratnagiri in the peak market. We on the back of the base load that we have under the group captive, the extra capacity that we have we tend to realize during the peak market times. And we were seeing that the standard deviation between the average realization on the IEX versus the peak and the trough has actually gone, but the peaks have actually been much, much higher than the average, right? And so we got some very good realization during some peak hours, especially in the morning and also late in the evening, which has really helped us as far as merchant realization that Ratnagiri are concerned. In Vijayanagar, we don't have any such base load, right? We did have 200 megawatts from PCKL, but the tariff discovered tariff at INR 2.08 was not really remunerated even it passed went through the rule. On top of it, we did play the merchant market, but not as effectively as Ratnagiri because the variable cost mentioned in Vijayanagar was very high. So there is only so much that we could have played there. But Ratnagiri really benefited, one, from the merchant market if I would use the word and also because of the two part nature of the group captive mechanism that we have there.

Sumit Kishore: Okay. And just for my understanding, the entire generation in Vijayanagar would have been classified under merchant for the quarter. So by subtracting 1,147 minus the Vijayanagar units, it appears Ratnagiri short term would have been a very relatively a smaller number?

Jyoti Agarwal: I don't know how you are getting to these calculations. But the Ratnagiri short term number is quite a respectable number. Of the total share of the volume that we have sold, almost like 1/3 of the volume is coming from merchant, the balance is coming from the tied up capacity.

Sumit Kishore: Okay. Now I'm going through your press release, which says short term sales was 1,147 million units, and your press release says that Vijayanagar net generation sold was 960 million units, so that leads me to the conclusion I just gave you.

Jyoti Agarwal: No, so the power that we sold them with steel in Vijayanagar is not classified as short term because that is also a part of the PPA. And we can sell on a regular basis power to steel companies and others. So the assumption that 100% of the Vijayanagar capacity is short term is not correct, there is a portion there, which is long term classified, yes.

Sumit Kishore: Sure. Sure. That's clear. And if I look at the BSE filing, the share of profit or loss of joint venture and an associate is a positive number as compared to a loss in the previous quarter. So how should we interpret that change?

Jyoti Agarwal: This is largely the share of income that we get from our mining subsidiary BLMCL, which is a 49% subsidiary of Raj West. Now here because of a tariff price revision and this is all interim tariff price, the final tariff price has not yet been determined, there was an upward revision of the tariff price because of which our realizations are better in this mining deal and the costs were all amortization costs. The costs didn't go up so much. This is the primary reason why the loss got converted into profit.

Sumit Kishore: Can this be taken as a recurring event from here?

Jyoti Agarwal: Till the time the final tariff price is not determined, yes, this should be the case. But if the final determined price is higher, then the profit will go up. If it's lower, the profit will go down.

Sumit Kishore: Okay thank you so much.

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

Abhishek Puri: Thank you for the opportunity. Sir, two questions on the operations. First regarding this Vijayanagar. Do we have tie up right now and what it is? And on Ratnagiri, all 3 units are tied up? Or this third one you said, which is now tied up Unit II, what is the ramp up phase that we're looking at?

Sharad Mahendra: See, Unit II ramp up phase in Ratnagiri, and the answer is we are looking for as a retail that it is the status of the unit is now under group captive, but as I told you the group captive consumers' requirements will be increasing gradually spread over a period of next 12 to 18 months. So till then, part of the capacity as and when this volume tied up capacity requirement goes up under group captive will be increasing, and in 18 months' time, we expect the entire unit to be under captive to suppliers.

Jyoti Agarwal: Abhishek, I think the way to look at is not that you've tied up Unit II, what we're saying is we've converted Unit II from an IPP status to a group captive status. Now what does that mean? Now we can sell power to steel and some of the third party group captive customers across 3 units and not necessarily across only 2 units. The tied up group captive capacity remains the same right now. The benefit of this is that, later on anyways, we intend to cover the entire 3 units under the group captive. So that's the job done well in advance. Second, we can spread the current schedule across the group captive customers over 3 units instead of 2 units, which allows us to skim the merchant market much better, right? Because we were limited by our capacity to skim by our free capacity only 2 units, right? Now we can do it over 3. And the merchant market continue to remain the way they were before the monsoon started and that would help us get a much better realization by kind of skimming the peak market in the merchant.

Abhishek Puri: You mean to say you can get better rates from the industry side in the merchant market? Or rather than the spot market?

Jyoti Agarwal: Spot market.

Abhishek Puri: You don't need to convert to a group captive, right? So that you can directly access these spot markets otherwise?

Sharad Mahendra: See, we have to run the units at a certain technical minimum. Now the status of these 3 units under group captive gives us the flexibility to supply our present requirement also to our existing group captive customers instead of only from 2 units, this was a limitation till this happened. Now we can supply from 3 units and at the technical minimum or say may be at 50% whatever it is, depending on their requirement and balance if the merchant market demand is there, prices are good, and then I can sell higher volumes from 3 units and continue to supply the present volume. Otherwise, my present we were restricted to supply the captive customers only from 2 units.

Abhishek Puri: Got it. So you had to keep 1 unit shut; now you can keep it at a technical minimum and ramp up whenever the demand is higher.

Jyoti Agarwal: Yes. Whenever the demand is, I can supply higher volume in merchant.

Abhishek Puri: Understood. Can you give us the details of the PPA that you have right now? And whether the future JSW Ispat expansion that is coming through is covered here?

Sharad Mahendra: See, presently, we have PPA primarily with our within our group company only, which is JSW Steel Dolvi, and our coated subsidiary of the steel, which is JSW Coated and is a subsidiary. So this is what we have the tie up now. And also with some customers outside, which will which is around close to about 55 megawatt to 60 megawatt is under group captive. Now the incremental requirements will there are with within JSW Steel and JSW

Coated and also we powered JSW Cement. So that is where the increase will come and the capacity in our JSW Steel Dolvi plant is increasing in coming maybe next few months, maybe a year or 1.5 years. So that is how this entire 300 megawatt will also move under the group captive in terms of actual utilization.

Abhishek Puri: Sir, just for the modeling purpose, I'm sorry to hop on it again. In 18 months, we should look at 900 megawatt as fully tied up with a variable cost pass through?

Jyoti Agarwal: Yes. It appears to be. We're also expecting to see.

Abhishek Puri: Got it. And on the Vijayanagar plant, sir, if you can just help us if there are any further short term contracts that you have tied up?

Sharad Mahendra: Presently no. We don't have any short term tie up. And we are just waiting and seeing, but presently we don't have other than the group captive.

Abhishek Puri: Okay. And lastly, just 1 small book keeping query. Tax rate has come in at about 10%. So what is the effect there and your other expenses have also declined quite sharply. So is there any one off effect over there? Or is this going to be a recurring amount?

Jyoti Agarwal: See on the tax rate, there are 2 things that have happened this quarter. One is nonrecurring and one will recur at least for the rest of the year. One is that under the CERC PPA for Karcham now is 100% tied up. So tax becomes an actual pass through on actual basis. So there is no recognition of deferred tax now that we need to keep in the books of accounts. All the accumulated deferred tax amounting to about INR 35 Crores has been written back this particular quarter and that has brought down the absolute tax amount low, that's one.

Abhishek Puri: That is Rs.55 Crores?

Jyoti Agarwal: Rs.35 Crores. That's onetime this quarter, which will not be recurring now. We had a subsidiary in South Africa. We still have it and that was having a certain provision in the books of accounts. The carrying value was higher than what the fair value was. So we have done a provision I think about a couple of years back. Now we have restructured the holding of that entity because of which we will be able to get a tax setoff of that provision now from a tax point of view. So accounting wise, there is provision already made earlier. There is no accounting impact. But the tax liability now will go down because that will be available for tax setoff. So that will pan out over the course of the year on effective tax basis. So that has also benefited us and brought down the effective tax rate to about 10%.

Abhishek Puri: And on the other expenses side Sir?

Jyoti Agarwal: The other expenses, I mean, broadly the O&M expenses have been in control and that exercise continues. I think the beyond the general inflation, especially the staff cost related aspect; we should continue the way you see in this quarter. So that should be the steady state. I'm talking about the overall O&M expenses, yes.

Abhishek Puri: Okay great Sir. I will join back in the queue may be for queries. Thank you.

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

Anuj Upadhayay: Sir, on debt reduction process, I mean, we have reduced close to INR 1,300 Crores of debt over the past 1 year. So how things going to be for this and next fiscal? I mean, are we looking to reduce similar amount of debt or it could be slightly lesser than what we did in last year?

Jyoti Agarwal: So the deleveraging efforts do continue in the group with whatever cash flow the business is generating. If there are no profitable remunerative deployment opportunities, then we will definitely use it to repay or prepay our debt and that exercise does continue in this particular quarter also. We reduced our debt liability by higher than INR 500 Crores, I mean, INR 528 Crores was the total reduction. Now the term loan component of that was lower. I think about INR 165 Crores, and the balance about INR 363 Crores was the short term buyer's credit liability. These are interest bearing liabilities. Now this came about because of a change in RBI's guidelines on the LoUs. LoUs we are not allowed because of which we had to move away from supplier’s credit based on LCs and BGs rather than LoU. Now that brought down the working capital liability cycle. We were running it for 10, 11 months, kind of brought down to 5 to 6 months. So because of this, we had to repay lot of our current liabilities, especially the interest bearing ones. Now that seems to have now stabilized, a little bit more is there to be reduced. But it is more or less stabilized and any further cash flow generation, unless and until we have deployment opportunities with the IRR in the power business as well as the EV business, will be used to reduce the debt. This year the debt reduction may not be as much as last year because we have plans in EV, which will require some capex investments and depending upon how solar market shapes up, there could be some plans in the solar market as well. But if some of these plants are deferred or if the actual capex spend is lower than what we had budgeted any time, that will be used promptly to kind of repay the debt.

Anuj Upadhayay: Okay. Okay. Any plan sir, how much capex we may deploy on the EV front? Or it's still undecided yet?

Jyoti Agarwal: This broad capex plan is about $1 billion over the next 3, 3.5 years.

Anuj Upadhayay: For this specific year sir for FY2019?

Jyoti Agarwal: For this year, we had envisaged about $150 million of capex spend, but the way things are going, I think the capex spend is likely to be deferred to next year. Bulk of it will be deferred to the next year. I mean, the key spend was that and that it is taking a little bit of time. So what I my sense is anything which is substantially lower than what we had budgeted at the beginning of the year because it's taking a little bit more time to get our strategy right at this time.

Anuj Upadhayay: Okay. Secondly, sir, I mean could I get your outlook on the merchant rate for the current fiscal and how the monsoons have behaved this year? This is in perception to our hydro plant. So that we can assess some greater performance for the fiscal year.

Sharad Mahendra: See, merchant price may appear to be better as compared to last year if we compare during monsoons also, what we have witnessed in July, it is definitely higher than what it was last year in July, or maybe close to the same numbers, slightly higher. But going forward, the way demand growth is and the way fuel price is, we expect, of course, it is also related to what fuel price increase is. To some extent, that also impacts the merchant prices. So we expect that it will be on a higher side only as compared to what we have seen in balanced part of the year also.

Anuj Upadhayay: When snowfall Sir in the monsoon part? How the monsoons have behaved?

Sharad Mahendra: Monsoon related to hydro, see, whatever happens, actually we have to understand that how the hydro works. Actually, if we see last year what has happened in terms of the snowfall? And then what is the prevailing temperature, it depends, immediately the rainfall or the monsoon have limited impact especially in the basin where we are, it is more related to the snow melting, the snowfall in the previous year. So those things maybe the basic studies, which have been communicated, which has been conducted by the Himachal government also. And that this shortfall may be we expect that full year will remain where we are and not possible to make up what we have lost till now in quarter 1. This is a recovery, very, very marginal, but we expect that.

Jyoti Agarwal: So Anuj, I think just to add color here. Hydro basically has 2 types of approaches, right? Sourcing of water. One is the reservoir based approach and the other is the run of the river based approach. Northern plant which are on the Himalayan basin, both the ones in Uttarakhand, HP as well as on the northeast side, they are mostly run of the river, where we are seeing that the snow has more important bearing on the water flow than the monsoon. And there has been low snowfall at least in the northern side versus Himachal followed by J&K, as well as Uttarakhand, but the Sutlej basin where our plant has been the worst affected unfortunately. On the northeast side, actually it is better. Snowfall has also been better and water flow is higher. As far as the reservoir based plants are concerned, in the South, Karnataka, quite a few reservoir based plants. There the generation is higher. The water flow has been much better. They are monsoon dependent. So I don't think you can simply link the monsoon to the hydro. It's more how the strong the winter has been. Now in terms of how do they affect us, I mean the hydrology has been adversarial this year, and I don't think we will be able to catch up as Sharad was saying, but the way the PPA is, that in terms of shortfall, in terms of the generation in a particular year, it has adjusted in the next year provided the generation or the water flow generation consequent to that is normal. So this is a 1 in a 10 year, 1 in a 15 year phenomena, this current year that has happened. And in the next year if this happens to be normal, I'm not talking about a situation where we are generating almost 10% our secondary energy, I mean if we achieve designed energy, which is very likely to happen, then we'll recover the entire shortfall as far as the primary energy is concerned in the next year. So it is just a deferment we feel of the primary energy shortfall that we will have this year, which we should be able to recover next year itself. Secondary energy loss is the permanent loss. The way things are we expect secondary energy to be nil this year.

Anuj Upadhayay: Thanks Sir.

Moderator: Thank you. The next question is from the line of Apoorva Bahadur from ICICI Securities. Please go ahead.

Apoorva Bahadur: Thank you for taking my question. Sir, I was going through the presentation, and so basically what I'm seeing is the net debt has increased quarter on quarter despite us repaying back almost INR 528 Crores, so why exactly is that? Where are we investing?

Jyoti Agarwal: So, the key debt reduction number is the gross debt number, which we don't report. The net debt has actually gone up because the cash balance that we had on a quarter on quarter basis went down. We were carrying almost INR 600 Crores of cash at the beginning of the quarter, that number has come down to about INR 336 Crores, and this cash was used to pay the buyer's credit, some of the Capex that we did for solar and some of it has gone into working capital as well. So when you see net debt has gone up, this is essentially because of a reduction of cash. The absolute gross debt on this interest is calculated actually gone down by about INR 165 Crores despite the term loan factor, sir.

Apoorva Bahadur: Okay. Got it, sir. Sir, also I would like to know now that the stressed asset market, I mean, some deals are going through, and if this deadline for this RBI directive, that reservation, it is fast approaching. So are we seeing some more action heating up on the bidding side? And what sort of a war chest or what sort of an outlay do we have for participating in these?

Jyoti Agarwal: Yes. So I would say that people are generally sanguine about the power sector but there is still a lot of incipient stress here, and we are not seeing very aggressive bidding or very aggressive positioning by the players as far as power is concerned. But to be honest, it is just a beginning. So we will have to wait and see how it pans out. There are a few of strategies, only handful I would say and quite a lot of financial investors here. So we have to wait and watch in terms of what is the nature of the competitive intensity in the power sector. As of now, we have not seen a very, very bullish sort of a sentiment as far as the bidding ability is concerned. Yes, and your other question was what?

Apoorva Bahadur: Sir, I mean, what type of outlay do we have for investing for basically for inorganic growth via stressed asset acquisition?

Jyoti Agarwal: So there is no committed war chest that we have for the stressed asset, or the inorganic opportunity, on the thermal power side. We will be looking at deal by deal and we have been looking at quite a lot of transaction, almost every transaction shown to us as you would imagine. There are few of them, which are quite interesting, complementary to our current footprint, right type of asset, obviously, the capital structure is very bloated and even at the expected capital structure, we feel it is a challenge to make reasonable return on a risk adjusted basis. So if a particular opportunity comes, then we will not shy away from that. In terms of ability to do the transaction, a lot of it will come from the debt itself getting extended. This wouldn't be a simply capitalized asset because the capital structure is bloated as we would imagine. And they are also open to exploring tie ups with some financial investors either on a partnership basis or on an asset light basis. Also holding some discussions, have been going on and on. So I don't think there is a committed strategy or committed amount here. But yes, there are some assets which are interesting, and we'll be keenly watching them and if they are available at the right kind of construct, then we will definitely go for them.

Apoorva Bahadur: Okay, sir. Sir, last question on the coal side. So I think Shakti Bidding do we have any update on that? Are we participating in it?

Jyoti Agarwal: So, Shakti, as you know, either you should already have a PPA or you should be having good visibility of the PPA over the next 2 years, and these are long term PPAs that we need to have. So as of now, we don't see that visibility frankly. So we're not going to participate in Shakti, but we are participating in the various e-auctions, short and special forward e-auctions, and we did get some small quantity as the first time for our Vijayanagar plant, which we've also started using. The more coal is available, the more of these auctions happen, the more we will use domestic coal given that it is much cheaper than the international coal at the current market price.

Apoorva Bahadur: Great Sir. I will get back in the queue for more questions. 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. Two, three questions, please. First question is you mentioned that there is no material impact of the adoption of AS 115 on the account. Just checking whether we have got some benefit of this for Himachal Baspa since our capacity charge normally speaking would have been a bit lower on the recovery side given the monsoon not being too well in our catchment area. Just wanted to check that has there been any uptick in the revenue on account of this at Himachal Baspa? That's my first question.

Jyoti Agarwal: Yes. I understood. But the capacity charges are actually fixed, Anirudh, irrespective of the water flow. It is the energy charge, which has actually been severely impacted this quarter, if at all. We have been very badly impacted this particular quarter because of the less water flow. There has been no impact. There has been a very marginal impact of Ind AS 115 in whole/part equalization of the secondary energy and the incentive, hardly was talking about and that also the impact has been a negative impact. So to answer your question, there has been no policy impact of Ind AS 115. There has only been a marginal negative impact.

Anirudh Gangahar: Okay. Okay. And just on the second question relating to the depreciation that has increased during the quarter. So this particular increase in the depreciation is only in the books of account, but this is but this is also now flowing in into the top line as well since now the entire capacity is tied up in the typical long term PPA. So just trying to understand the exact impact of the bumped up depreciation. Was it always the case on the regulatory side? And we have now started accounting for it. Is it a one off or this is a normal now going forward depreciation that we will be having?

Jyoti Agarwal: Yes, so we've been following the Companies Act as far as the depreciation is concerned. So far because it was a part PPA and part merchant capacity, we were relying on the management's estimate of residual value and useful life, but now it's a fully tied up PPA under the CERC tariff regulation, and there is not too much leeway that you have for a fully tied up PPA. You have to follow the Companies Act I think Schedule II and Part B, where you have to for the first 12 years depreciate at 5.28%. In a way it's kind of right if you look at it because your tariff recovery under the CERC regulation is also the same rate, so you're matching sort of revenues with cost. So we had to convert to what is mandatory by the Companies Act because if there is a little less than INR 50 Crores, I think INR 48 Crores or INR 49 Crores impact this quarter, this will continue till 2023 and this is a permanent sort of impact. It's a noncash charge, but nevertheless. And thereafter, actually we will be positively impacted because then under this guideline, the depreciation rate will be much lower than what otherwise would have been. So it's mainly a timing difference here if you ask me. So this will however continue till the next 5 years, yes.

Anirudh Gangahar: Right. So there's no retrospective impact in this 48.74? Or this is prospective for the current quarter and from this quarter onwards?

Jyoti Agarwal: This is not prospective. This is for this quarter only. And going forward, this will likely be the impact for every quarter going forward. There is no apprehending of an impact, no there is a realization of an impact for the past years.

Anirudh Gangahar: And would this, again, automatically get reflected in your top line as well? Given that now still 200 megawatts is in Punjab, so it would get reflected in the top line as well just to understand this?

Jyoti Agarwal: No, so as I was explaining, you see, the tariff recovery rules already mandate 5.28%, which is the depreciation rate recovery, that tariff is already captured in the fixed cost recovery at that rate of depreciation.

Anirudh Gangahar: I got it. So this is the accounting part we've started, yes.

Jyoti Agarwal: This is the economic impact, frankly, speaking is nil because here there is no tax impact also because tax is an actual pass through. There is actually a lower tax because of this high depreciation, but tax is an actual pass through. So cash flow impact is virtually 0, because this is only an accounting impact.

Anirudh Gangahar: Right. Right. And my third question was actually going back on the O&M. I know you mentioned the O&M would be at the current level, but just if you can help us understand that if I look at your other operating expenses on the consolidated basis at around INR 126 Crores, it is about 30% lower whether we do it on a quarterly basis or 20% lower on a yearly basis, and if you just look at the run rate over the last few quarters, that's quite a substantial decline. So is it that we reworked our contracts on O&M and this is something sustainable? Or is there is one off element in this?

Jyoti Agarwal: The only one off element, one in the O&M, we have been quite in control in the sense that, that has been one of the focused areas for us to keep a check on. Wherever possible, we've been trying to squeeze the cost and some of it is reflecting that effort the result of those efforts. So those are from the one off this particular quarter on a year-on-year basis, no open access charges. Now you know in Himachal Baspa, we had 376 megawatt corresponding quarter last year, which used to sell in merchant. There we need to have we used to pay transmission and open access charges, right? And those are no more there because this has presently been converted into a PPA. So those charges were booked in O&M expenses.

Other expenses are not coming. So that's a onetime thing. Then, of course, we have been generally very, very tight on O&M and so that benefit is also very reflected here.

Anirudh Gangahar: So I think that explains that you mentioned that this pretty much looks sustainable going forward, which is because now that is fully tied up, no transmission and no open access charges to be required to be paid.

Jyoti Agarwal: Yes, we'd like it to be lower, but we'll see.

Anirudh Gangahar: All right. And Just one little one clarification on a comment that you mentioned on the share of JV that it's going to turn positive now because of the interim order of RERC. What is the status of the losses at Jalipa? Have they kind of dwindled down now since this is a positive number now?

Jyoti Agarwal: No, see, you have to look at it slightly differently. I mean, there is a broad expenditure done when you open a mine, right? And then that expenditure is amortized over the life of the mine. Now there are 2 ways in which we amortize, some portion is time based and some portion is recovery based, right? Now, for the recovery based, it's no problem because you recover you charge the amortization based on the recovery. The time based comes and hit you. When Jalipa was opened, the depreciation of the time based came and hit you, whereas the extraction was very less and to that extent, the time based depreciation converted into a loss. Now what has happened in the in this quarter is that we got a ad hoc revision of the interim lignite transfer price, which means that the variable cost of Raj West center, but that is a full pass through, as you know. And but for BLMCL, the realizations were better as the costs were the same and because of which that loss, which we were incurring is converted into a profit, which is very much sustainable till the time the interim transfer price is converted into a final transfer price, and that our expectation is that will also be higher from where the interim is. Interim has been revised upward, but the final is even higher. But for whatever reason if that is lower, then there will be a negative impact, unlikely so. So we expect this to only get better. How soon is a matter of regulatory time that it takes and being very tardy, we hope that this financial year, we'll get it done. Of course, you will get to see the numbers whenever that is wrapped.

Anirudh Gangahar: Thank you very much for all the answers.

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

Pulkit Patni: Sir, most of my questions are answered. Just the mention of domestic coal usage at Vijayanagar that you started, could you just highlight where is this coal coming from? And effectively, what is the quantity that you use this time around? And how should we look at this going forward in terms of just the economics of choosing domestic coal at this plant?

Jyoti Agarwal: See, this coal, we've got this is a special e-forward option, which comes. The coal total quantity which we have been successful in getting through the e-forward bidding is 176,000 tons, and this is from the Western Coal Fields, which we have bought for Vijayanagar. And also, we have received a small quantity already we have received at site also, and we expect in next 3 to 4 months' time this entire quantity we'll be able to receive and consume at our Vijayanagar plant. As regard the advantage of the in terms of the pricing, definitely there is an advantage and maybe about 60 to 70 paisa or something like that in terms of the per unit. But as and when it reaches because there are many factors involved in terms of what kind of GCV is said and what we get. So there will be some kind, but definitely there is some advantage as compared to the imported coal what we are using in Vijayanagar. And as regard our future, we will keep we're definitely exploring all the options as and when this similar kind of options come, where we can participate and commercially it makes sense in terms of, we will be definitely keen to look for more such opportunities, especially for our Vijayanagar, and also as and when it suites for Ratnagiri plant also.

Pulkit Patni: Sure Sir. Thank you.

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

Koundinya N: Sir, I just wanted to know what will be the effective tax rate going ahead? Because you mentioned about some benefit in the South African business, so just wanted to have some idea on that.

Jyoti Agarwal: Look, I mean, the as far as the subsidiaries are concerned, other than JPTL, the rest of them are on MAT tax. As far as the energy is concerned, this particular year because of the reason of the provision which became tax deductible, we'll be paying lower than MAT tax as far as the JSW Energy standalone is concerned. It would be difficult for me to give you an actual rate because it's also a function of the nature of profit that we're making across the board, but this year the effective tax rate in my opinion will be substantially lower than last year because of the one off reversal of the deferred tax of INR 35 Crores as well as the virtually lack of any normal tax or current tax in the energy standalone entity. I mean, this year we don't expect any normal tax in the standalone entity unless merchant markets are really booming and variable cost really come down and make a lot of profit unlikely we will be paying any normal tax in the Energy entity. So that's the guidance I can tell you about tax.

Koundinya N: Sure Sir. Thank you very much.

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

Mohit Kumar: Most of my questions have been answered, but two clarifications. Sir, have you participated in the bid for stressed assets?

Jyoti Agarwal: We have been participating in the process for stressed assets for a long time now and there have been several types of processes that have happened and some assets have been reprocessed several times, and we have been quite actively involved in the stressed assets, the ones where we have interest, yes.

Mohit Kumar: And sir, what was JSPL asset sale? Is there any updates which you can share? Are you looking forward to acquire the asset this fiscal year?

Jyoti Agarwal: So on JSPL, the update that we have is that we have extended the long stop date by 1 year. Now this is an SPA that we had done 2 years back. And there was a request which came from them to extend it by 1 year. So we evaluated the request and we thought that given that the plant is very, very good in terms of the overall technology that they use and the configuration and it's lying in coal based area and the current sort of outlook on merchant tariff, we felt that the construct of the SPA of asset value 4,000 and if everything is tied up at 5,500 to 6,500, it still works for us. So we have extended. Of course, there are some conditions to this extension. But to be honest, do I have a very high visibility on this? As of now, I don't because there are fair amount of CPs, which have to happen including a physical and structural demarcation of the assets on the broader complex, and that is a very time-consuming thing. I don't see any action on that front plus lender's approval is also pending and that's a very long run process. So I'm not counting on this particular transaction very, very strongly, but it's available in the current construct and then we will still be okay with it.

Mohit Kumar: Well, last question. What is the status of MDO appointment for the Barmer Lignite Mining? Are we the MDO or are we looking to acquire through appointing thirdparty?

Jyoti Agarwal: For the BLMCL, see, Barmer, the MDO like we are not, but yes, one of our group companies, which is Southwest Mining Limited is the MDO, and they are still continuing. From the very beginning, Southwest mining has been the MDO and they continue to be.

Mohit Kumar: But we had conducted some bid for thirdparty if I remember correctly?

Jyoti Agarwal: See that there is a request came from the DISCOMs and we had discussions. So we haven't conducted yet that process as per the going to take some time, but that is under discussion, yes.

Mohit Kumar: Okay thank you.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants. I would now like to hand the conference over to Mr. Pritesh Vinay for closing comments.

Pritesh Vinay: Thank you very much once again for participating on this call. In case, there are any followup question, please feel free to connect with either Nitin or myself after this call. Thank you.

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