"JSW Energy Limited 2QFY2018 Earnings Conference Call"

November 01, 2017

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Moderator: Ladies and gentlemen, good day and welcome to JSW Energy Limited 2QFY2018 Earnings Conference Call 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Bhargav Buddhadev from Ambit Capital. Thank you and over to you Sir!

Bhargav Buddhadev: Thank you Janice. Hello, everyone. On behalf of Ambit Capital, I welcome you all to the 2QFY2018 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 and CEO; Mr. Jyoti Kumar Agarwal, Director - Finance; and Mr. Pritesh Vinay, VP, Finance and Group IR. I would like to hand over the call to Mr. Pritesh Vinay for the opening remarks, post which we can have the floor open for Q&A. Over to you Mr. Pritesh!

Pritesh Vinay: Thank you very much Bhargav. Very good evening to all the participants and we welcome you to the 2QFY2018 earnings call of JSW Energy. As Bhargav mentioned, we have the senior management team of JSW Energy represented by Mr. Prashant Jain and Mr. Jyoti Kumar Agarwal with us. You must have already had the chance to go through the results, the press release and the earnings presentation, which has been uploaded on the website some time back. So we will start with the usual format with a few minutes of opening remarks by Prashant on key highlights of the performance and the outlook and then, as Bhargav stated, we will open the floor for Q&A. With that, over to Prashant!

Prashant Jain: Thank you Pritesh. Good evening, ladies and gentlemen. This quarter was a very interesting quarter in terms of power demand. We saw that the power demand grew by 5.2% YoY. Sequentially, we saw that last quarter also the demand grew by 5.1%. And this interesting trend we have seen without any meaningful industrial demand pick-up. So the real latent demand is kicking in and the key drivers were U.P., which was up by 18%, Maharashtra 8% and Telangana 19%.

An interesting thing during the quarter was that first time we saw the net installed capacity was down by 975 megawatts, primarily due to retirement of the some old power plants. So, the concerns regarding overcapacity are receding, and this was also reflected in thermal PLF, which was up by more than 3% YoY in this quarter as you saw the thermal PLF going to 57.6%.

This is also an interesting fact, that thermal generation was up by 8.5% and renewable energy generation was up by 24%. So the key takeaway for us was that the oversupply situation is receding as limited new capacity is coming up. Second is the latent demand is kicking in and the base load power demand is coming up, that is why the thermal PLF is increasing. So we got really encouraged with this thought process and then we also saw that the exchange volume was up by 9% QoQ and up by 18% YoY. Also, the exchange prices were up by 44% in 2Q as compared to the last year.

Now during the quarter, the thermal coal prices were up by 34% YoY and 18% QoQ. Dollar was down 4% YoY and flat QoQ. For the company, the net generation was 6.1 billion units, down 3% YoY. Our EBITDA was up 4% YoY and profit after tax was up 37% YoY.

During our last call, we talked about three-four key strategic initiatives, on which we are concentrating. One part was improvement in our financial profile. In line with that, we have been working in a very concentrated manner on improvement in our debtor profile and I am happy to share that the debtor reduction, which we initiated in the last quarter, continued in the current quarter also, which reflected in the overall debt repayment. Our net debt was reduced by Rs1,705 crore (in H1 FY18), which resulted in net-debt-to-equity of 1.13x. During the quarter, we continued to do the refinancing and reduction in our interest costs. In the first half of the year, our weighted average debt cost came down by 84 basis points to 9.33%. We are expecting this trajectory to continue in coming quarters, and so our net debt reduction will continue. Also the weighted average debt cost reduction will continue and meaningful impact will be seen as structural changes going forward. Additionally, we have been taking various initiatives in terms of operational efficiency and reduction in O&M cost, and the management is very happy to share that with the initiatives taken by us, our O&M costs have reduced by more than 10% on a blended basis. This trajectory, we are expecting, will continue.

Second, we are also working on the long-term PPA side. During the quarter, we added 4 megawatt of group captive. In fact, we started working on a group captive scheme with the third parties on a bilateral basis. We made a very good progress on that part, but certain regulatory approvals – getting the no objection from the distribution company was getting little difficult and also due to the shortage of the power within the state, progress on that was slow. So, we are working primarily right now on the group captive within the Group only. And I am happy to share that JSW Coated has also asked for enhancement of another 26 megawatt of PPA from our Ratnagiri plant. And there is a meaningful progress on our 376 megawatt of untied capacity in Hydro, where we have worked with Haryana for 176 megawatts and 200 megawatts with Punjab. Both the PPAs have gone to regulators for regulatory approvals, and as we had guided in our last call, we are on course to tie-up 75% of our portfolio under long-term PPA by end of this fiscal.

As a growth strategy, we have two more areas where we have taken a meaningful initiative. One, on the thermal space, there is a PPA with JSW Cement. JSW Cement wanted to set up captive power plants for 18-megawatt at Salboni and 18 megawatt at Nandyal, and JSW Energy is in the power business. So, we have agreed to set up two power plants of 18 megawatt each at these locations based on the domestic coal, which will be on a 2-part tariff PPA for long term. On a group captive scheme, we will be setting up this project over next two years.

And during this week, we have also signed a credit line with the SBI and World Bank partnership for solar rooftop for Rs600 crore at very attractive interest rate, which will be having a long-term tenure of 15 years. As you know, JSW Energy is venturing into the electric vehicle space, and along with electric vehicle, we are also entering into battery manufacturing for static as well as the mobility space. So, in order to do the further forward integration with our energy storage application, we are interested to get into the off-grid solutions, because we feel that in the next three to five years' time when the battery prices come down substantially, it will be very, very economical for people to integrate their solar power generation at rooftop with the battery packs and they will go off-grid.

On this opportunity, we have started building the organisational capability. We will be setting up 6 megawatt of solar rooftop completely tied up on long term with JSW Cement and 1 megawatt for JSW Energy for captive consumption at our Barmer power plant. So with that, we will now be building the capability and moving forward for off-grid solutions for the retail market. For doing this, we will be setting up a SPV, which will be 100% subsidiary of JSW Energy.

In terms of the electric vehicle space, as you know that in the last quarter, we signed an MoU with the Government of Gujarat to set up a manufacturing facility in Gujarat, both for electric car as well as the battery. We are in the process of building the capability for product strategy, for technological side and also we are in discussion with various business partners for meaningful partnership for designing this car. Jyoti, you would like to add anything?

Jyoti Kumar Agarwal: Actually you covered it all. Sir, you can open the floor for questions.

Prashant Jain: So, I will open the floor for question and answer now.

Moderator: Thank you very much. We will now begin with the question and answer session. We take the first question from the line of Abhishek Puri from Deutsche Bank.

Abhishek Puri: Congratulations for solid improvement in the balance sheet. Two things from my end. One, the interest cost has not seen a subsequent reduction despite the cost of debt reducing substantially for you. So would we see that impact in the coming quarters? And similarly for the fuel costs – I think that also on a per unit basis is kind of flattish. If you look at the last quarter, the fuel costs internationally have gone up by almost 20% or 17%, 18%. So, have we started blending domestic coal? And my third question is on other income. If the other income has gone up 230% and taxes have reduced, so what has led to that?

Prashant Jain: Well in terms of interest cost, some reduction has happened because the majority of the refinancing has been done towards the end of the quarter. So you will be seeing the meaningful impact in quarter to come. And also, this trajectory will be going down further. So, weighted average cost, which is 9.33% at the end of the current quarter will be going further down. And in terms of your fuel cost, I am not sure which numbers you are seeing. If you are seeing on a consolidated basis, that will not be reflecting, but on a standalone basis, there is an increase in the fuel cost because international coal prices went up by 34% or so year-on-year, that kind of increase you will be certainly seeing in our numbers.

Abhishek Puri: But quarter-on-quarter it is just up 1.5% from 1Q to 2Q and that is where I think it has increased by 17%-odd if I look at the data.

Prashant Jain: Yes, but you should remember that there is always a time lag and there is an inventory, which is in the system. So there is a time lag. As far as the other income, I would like Jyoti to answer.

Jyoti Kumar Agarwal: Yes, so other income has been high by almost Rs90-odd crore and this is largely due to the one-off income that we got because of back-down charges from one of the states, where there was supply of power quite some time back, almost a year back. So that revenue we recognised in this particular quarter because we realised the same. Also, as far as the Himachal Baspa is concerned, for the tariff difference, there were some carrying costs that we collected in this particular quarter. And on a year-on-year basis, there are some long-term and short-term advances that we have given, which you might be aware, JSPL and JPVL and those advances were not there about a year back, and all these are interest-bearing advances, on which we are recognising, as well as realising the interest, that contributed to the rest.

Abhishek Puri: If I can slip in one more question, what is the status of the PPA for Vijayanagar now? How much is the quantum that is going in and has the state started picking up that power because we are hearing about shortages in Karnataka?

Prashant Jain: So, we were L1 at 200 megawatt, and we are expecting that very soon we will be getting the LOI because we have been given to understand that regulator has already approved it. So any day we can hear that.

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

Apoorva B: Thank you for taking my question. Your standalone realisation has gone up, which would be due to better merchant realisations. So would you like to revise your guidance now for the year?

Prashant Jain: Basically, we do not have any view on the merchant tariffs. And as it is, we sell a very small quantity in the merchant market. If you see the exchange prices, the prices went up by 44% YoY, but the fuel prices also went up by 34%. So primarily our strategy is twofold: one is that how do we increase long-term tie-up, and we have taken certain concrete steps. We have discussed last time, and then progress has taken place. And then, we are seeing a meaningful visibility of converting our open capacity into long-term tie-up. In addition, we are also taking certain meaningful steps to convert our imported coal positions into domestic coal because now with the announcement of new Shakti scheme, we are very, very encouraged, and we believe that there is a great possibility to integrate our Vijayanagar as well as Ratnagiri units with the domestic coal. So we are in the process of building the strategy and in quarters to come you will be seeing certain progress on that part.

Apoorva B: Okay, great. Sir, also it would be great if you could update us on Bina and Tamnar acquisitions, any progress on those fronts?

Prashant Jain: Well, in the case of Bina, as you know that we have an agreement with the company, but lenders of the company had initiated a process to sell certain portion of equity in the company. Our agreement with the company stands valid, and the long stop date is December 31, 2017. Since the process is still on, we see a very remote possibility of this transaction going through.

Apoorva B: Sorry, I did not get you. See what possibility?

Prashant Jain: Very remote possibility.

Apoorva B: Okay, okay. Got it. Sir, lastly just one more question on the other income part. I missed the one-off component; Was it Rs90 crore?

Jyoti Kumar Agarwal: We have not quantified the one-off component. I am just telling you that the difference between the other incomes of the corresponding quarter last year was explained because of the one-off items that I described. Some of those are not one-offs. For example, the interest on JPVL and JSPL advances will continue till the time those advances are there. But there was a reasonable amount received this quarter for some back-down and late payment charges, which we realised this quarter and that contributes largely to the difference.

Apoorva B: Okay Sir, I will join back in the queue for more questions. Thanks a lot.

Moderator: Thank you. We take the next question from the line of Inder from Macquarie. Please go ahead.

Inder: Inder here from Macquarie. My first question is on this group captive kind of a business. You referred to certain difficulties, which are being faced when you talked to Discoms. How do you characterise that problem? Is that more of a short-term thing, because of shortages in power at this point of time or do you think it is more of a concern for them to lose out some lucrative customers, and hence leading to these issues remaining for some time? And another thing, if you look at your own business under cement, why do they need to set up group captive plant, and why cannot we enter into a long-term arrangement from our existing plants. Are there any transmission bottlenecks that you foresee in that?

Prashant Jain: I am taking the first question. It is very difficult to answer on behalf of distribution companies. But you will appreciate that when you enter into this kind of agreement; you are entering into a competition with a distribution company. So, there are some times issues on getting NOC. So we are facing meaningful challenges – difficult to say if it is short term or medium term. But we have a very clear-cut strategy to tie-up our Ratnagiri plant because JSW Steel is going for capacity expansion and JSW Steel has already given a formal guidance that they will be completing their expansion project by March 2020. And with their expansion getting completed at Dolvi to 10 million tonne, we will be tying up the complete power of Ratnagiri with JSW

Steel, which is within the framework of the current regulatory approvals as well as the Discom thought process. In the interim, we continue to look at various opportunities, short term and medium term, which comes in the next 24-month timeframe, to load our facility. And whenever the merchant tariffs are up, we can ramp up our capacity very quickly. As regards setting up the facility, yes, you are absolutely right that there are the transmission constraints and open-access charges, which are required to be paid. And this plant will be based on the domestic coal, whereas our Vijayanagar plant is based on the imported coal. So the viability does not come, and so we want to move away from imported coal to domestic coal.

Inder: Okay. Second, maybe simplistic question, if I look at in your own presentation that sequentially the volumes on the merchant side have gone up. Yet at Vijayanagar, we see our own merchant volumes come down from Q1 to Q2. Are there any issues in terms of we are not being able to supply more? Are there, again, similar transmission kind of constraints or is there a coal availability or imported coal issues which does not make it viable to sell at current prices?

Prashant Jain: No, it is basically there was a medium-term contract with Karnataka Discoms, which started in January and was valid till May. So, for the first quarter, two months we were supplying close to 600-megawatt power, which was classified under the merchant contract. Now we are selling in exchange and when we enter into the short-term contract with Karnataka, that will again be classified as merchant and that will be increasing the volume. Price is always a constraint; there are no other constraints.

Inder: Right. Just one last thing, in this quarter, can you give us a number as to how much imported coal was used? And is there, if any, kind of number you want to put in, say by end of FY2019, how much that should kind of come down by?

Prashant Jain: We would not like to give any guidance on that part. We have 1200 megawatt of the capacity in Ratnagiri, and 860 megawatt in Vijayanagar; total 2060 megawatt based on imported coal, out of which approximately 900 megawatt of capacity is tied up on a long-term PPA basis, where fuel cost is totally pass through. And the rest is open capacity. So our strategy is to work on both sides because under Shakti scheme, there are different segments. There is one regulated sector, another is unregulated sector. In the unregulated sector also, CPP is one part, and IPP (merchant) is another part. So, there are various schemes in which we will be working. We will develop over a period of time – it is not going to happen immediately in short term; but we will be taking certain baby steps, and then you will see meaningful progress going forward.

Inder: Okay. So, how much imported coal was used, in 2Q?

Prashant Jain: On these capacities, whatever generation is there is 100%. So, in JSW Energy standalone, whatever generation is there, 100% by imported coal.

Inder: Thank you.

Moderator: Thank you. We take the next question from the line of Atul Tiwari from Citigroup.

Atul Tiwari: Sir, what is the status of Tamnar deal? You commented on Bina with the comment that the possibility is remote. Same comment will apply for Tamnar also?

Prashant Jain: Yes. I believe so because there is no meaningful progress. Although both the organisations are committed, I see only very remote possibility of that deal going through.

Atul Tiwari: Sir, on Vijayanagar what is the tenure of this 200-megawatt PPA that you spoke about? How long is the tender?

Prashant Jain: Tender was for supply up to May 31, 2018.

Atul Tiwari: So the remaining about 660-odd megawatt capacities. Is there any visibility in terms of PPA for that at this point? Or you are still looking out? Or are there any tenders in the market where you are participating?

Prashant Jain: At this point of time, I do not have any visibility and Vijayanagar being a landlocked plant where with international coal, the fuel price becomes such that you cannot sell power other than in the southern region or other than in the merchant market when the power prices are really good. So that is why we are working very actively on the domestic coal strategy going forward. Until we have a meaningful tie-up with the domestic coal, this facility may not be competitive on a long-term basis. So, as long as the merchant prices are higher, we will be able to capitalise on that; otherwise, it is whenever short-term PPAs come from the southern region, we will be able to tie up.

Atul Tiwari: My final question is on electric vehicle. I mean any comment on, at least, the timeline when we can expect to hear more about who will be your partner and where will the technology come from?

Prashant Jain: I know that a lot of people will be asking the same question one way or other, but I would like to say that we are going to build a futuristic car, which will have a lot of technology and various other things involved. I am sorry to say that you will be disappointed as you will not be hearing number of updates from us very soon other than certain meaningful updates, which we have to say. Otherwise, most of the information will remain as classified information while we are working on that project. But as and when, we are having certain very material information, which we need to share with all the stakeholders we will be immediately sharing.

Atul Tiwari: Thank you. Thanks a lot and best of luck.

Moderator: Thank you. We will take the next question from the line of Mohit Kumar from IDFC securities.

Mohit Kumar: So one clarification regarding, our Vijayanagar power sale. Have you sold the entire amount through exchanges during the quarter?

Prashant Jain: Yes.

Mohit Kumar: Second, Sir, given that the Bina and Tamnar acquisitions are off the table right now, so when can we expect the recovery of the entire amount? When the amount is supposedly due and how are you going to proceed given JPVL's entire state of affairs?

Jyoti Kumar Agarwal: So as far as JSPL is concerned, the transaction has a longstop date of June 30, 2018, as you may be aware. And as per the terms of the MoU right now, if the transaction does not go through, the entire amount is recoverable at that point of time. As far as JPVL is concerned, the same mechanism holds. The SPA was extended to December 31, 2017, and if the transaction does not go through then the advance is recoverable at that point of time. We are hopeful that both these amounts will be recovered in due course. On JPVL, there is a possibility that given the state that you just described, and if the transaction does not go through, then the advance may continue beyond December, but there is a clear chalked out path in terms of the recovery of the advance should this be extended, although attempts are being made to see if this advance can be settled by December itself.

Mohit Kumar: So what kind of interest we are charging or recognising on this advance and is it getting paid?

Jyoti Kumar Agarwal: Advance on both of these assets is being serviced regularly and the interest rate is market rate of interest.

Mohit Kumar: Is it possible to quantify the other - the various one-offs in the other income?

Jyoti Kumar Agarwal: We would not like to quantify, but I have already explained this, if you look on a year-on-year basis, bulk - almost like half of the increase is due to the one-off that I just alluded to. One is, of course, the Himachal Baspa late payment charges and carrying cost for the differential tariff post the CERC order and one-off that we received in respect of back-down charges for power supply for our Vijayanagar unit. The rest half is actually explained by recurring income of the likes of interest from JPVL and JSPL, which is likely to continue for some more quarters.

Mohit Kumar: Last question, is Punjab capacity for the Karcham being scheduled now or will it await the regulatory approval, post that will start the supply?

Prashant Jain: Supply will only start after the regulatory approval and it is in process of regulatory approval now.

Mohit Kumar: So, right now we are supplying 504 megawatt. Am I right?

Prashant Jain: Yes.

Mohit Kumar: Thank you for the opportunity Sir.

Moderator: Thank you. We take the next question from the line of Rahul Kumar Mishra from B&K Securities.

Rahul Kumar Mishra: Thank you for taking up my question. Sir, my question is on the line of thermal generation capacity of 36 megawatt for JSW Cement. So, I just wanted to know what will be the capex and how exactly the capex will be funded?

Prashant Jain: The capex will be funded by internal accruals and debt, the capital expenditure – you can assume that it will be around Rs4.5 core per megawatt with a small capacity power plant. So, it will be close to Rs162 crore.

Rahul Kumar Mishra: Okay. So it is around Rs162 crore, sorry I did not get the number.

Prashant Jain: For 36 megawatt at Rs4.5 crore per megawatt, Rs162 crore.

Rahul Kumar Mishra: Thanks a lot Sir and so regarding the timeline, by when we are expecting this particular project to get completed?

Prashant Jain: Two years.

Rahul Kumar Mishra: Thanks a lot Sir for answering my question.

Moderator: Thank you. We take the next question from the line of Deepak Agrawala from Elara Capital. Please go ahead.

Deepak Agrawala: Thanks for giving me an opportunity. My first question is can you just highlight on the net profit that you usually include in your presentations from the Barmer plant and the Hydro plants?

Jyoti Kumar Agarwal: If you can just help me understand your question, you would like us to explain to you the difference in the net profits for these two plants?

Deepak Agrawala: Sir, generally you have a slide in your presentation on income, EBITDA and net profit from each of the plants. This time we are not having that net income slide. So just wanted to know the profitability of these two plants?

Jyoti Kumar Agarwal: Thanks a lot. Sorry, I did not understand your question. We felt that the relevant metrics for assessing the performance of the subsidiaries are revenue as well as the EBITDA and not really the PAT because there are quite a lot of below EBITDA adjustments and intercompany loans related payments, which are not really reflective of the true operating performance of these entities. So as a conscious policy, we have decided not to disclose going forward the PAT of the subsidiaries. So annually, as you know, when the annual report is published when the results are announced, some of these numbers will be made available to you as part of the mandatory disclosure. But on a quarterly basis, we would not be sharing the PAT of the subsidiaries going forward.

Deepak Agrawala: Qualitatively, will you like to say, is it like meaningfully just down or it is up because we have been getting this profits for last so many years, but for the first time we are not getting these numbers. So any qualitative comment you could like to make on that profit?

Jyoti Kumar Agarwal: Yes, so look below the EBITDA, there is only the financial leverage and to that extent, that would not be changing too meaningfully. We have already given the EBITDA numbers and you can see that the EBITDA numbers have gone down. So, you can probably do the extrapolation yourself. Beyond that I do not think there is any meaningful increase or decrease below the EBITDA level for you to kind of have a PAT number very different from what you would otherwise end up if you were to extrapolate the numbers.

Deepak Agrawala: Okay. And the second question is like in your opening remarks you commented on working very hard towards reducing the debtors that is very well reflected on the numbers. So can you help us understand is it largely related to the Hydro customer where we have seen such a sharp reduction or is it across the board from all the assets?

Jyoti Kumar Agarwal: Actually, it is across the board - standalone as well as the subsidiaries. So it has been an effort on our part to improve the liquidity of the company and realise some of the debtors, which has been outstanding for quite some time. Of course, a meaningful part of the realisation is from Himachal-Baspa but it is not just restricted to that subsidiary, it is across-the-board.

Deepak Agrawala: Also, if you can just help us, what is the average tariff that you had earned during the quarter because that is also a number I cannot see in the presentation?

Prashant Jain: Well look, we do not disclose that as a matter of policy. But you can again extrapolate that, you have some data, which you can probably extrapolate to come to the average revenue per unit at least, if not the actual tariff.

Deepak Agrawala: Thanks and I will get back.

Moderator: Thank you. We will take the next question from the line of Devam Modi from Equirus Securities.

Devam Modi: Thanks for the opportunity Sir. currently we have got around Rs23,000 crore of invested capital across the whole business and we understand that going ahead, you have sizable allocation to electric vehicle, battery, solar, and possibly there would be acquisition. So roughly what kind of capital allocations can we expect over the next three years for these other segments probably you can just give a FY2020 or 2022 mix of invested capital?

Prashant Jain: We will be deciding over a period of time depending upon the opportunities. As you know that kind of the balance sheet headroom we are having at this point of time, I think you will not be having any such kind of a constraint. So I am happy to have those kind of a constraint and that will be very, very interesting challenge for us if we are finding that there are balance sheet constraints. We have close to 1:1 debt-to-equity, and we are saying it is going to continue. So, unless and until we find meaningful opportunities, this constraint will not be there. And in case of EV, you know that what we have given a guidance of Rs4,000 crore as the total capital expenditure. If I say that project is financed by 1:2 equity-to-debt ratio then you are talking close to something like Rs1,200-1,400 crore of equity over a period of three-year timeframe, which is peanuts on this balance sheet. So the real constraints will come when the big M&A opportunities are coming our way. And which we are very, very much excited given the space where we are in and then the crossroads where we are in. And we believe those will be certainly helping us. But at this point of time, I do not see any kind of the challenge.

Devam Modi: I appreciate your point on the balance sheet strength. Now obviously, the big thing over here is the EBITDA that you can generate and given the fact that your EBITDA is obviously a function of two things: One is the commodity that is moving and also the plant utilisation. So, would you be confident in saying that over the next four quarters, you would only expect your EBITDA to be much higher than the last four quarters because there is substantial challenge in terms of the commodity price that you would be encountering in the next half.

Prashant Jain: So our EBITDA is irrespective of what you are seeing in the merchant market today; because we are not considering that in our plan. We are talking about long-term PPA based proper cash flows. And that is where we have been working. So whatever engineering and then efficiencies we have been able to draw is all structural and it reflects in our O&M cost, operational efficiencies. If you look at our merchant volume – it is very miniscule, and the increase in the merchant prices has been offset by the increase in the fuel price. I have mentioned that we are not at all excited about higher merchant prices. In my earlier strategic interactions with the investors I have maintained that we see that the long-term power prices will be around Rs3.

Devam Modi: Okay and the main prospects that you would be concerned about would be the demand side, you will expect that your PLFs for the base load capacity that is for thermal power plant should rise from current levels over the next two to four quarters?

Prashant Jain: And that is what it is happening. And that is why I am very, very much excited to see those trends. So, higher merchant prices are not really an exciting thing for me. It is more of a PPA thing, which is getting tied up and also the future growth opportunities which are fully tied up.

Devam Modi: That is it from my side. Thanks Sir.

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

Anirudh G: Thank you for the opportunity. My first question is on the Ratnagiri plant. Just to get everything together, we will be tying up the entire open-ended capacity with JSW Steel in a couple of years from now and during the interim, we have the group captive PPAs, and you also mentioned in the opening remarks that the JSW Coated has asked for a 26-megawatt PPA. So, if you can just help me understand that how is this open-ended capacity, which you were firstly trying to tie-up fully on group captive, now it is going to be tied up over the next, let us say, 18 months or so?

Prashant Jain: So, as of now, out of 1,200 megawatts, 300 megawatt is already with MSEDCL and another 473 plus…

Jyoti Kumar Agarwal: 480 at the end of the quarter.

Prashant Jain: So 480 was at the end of the quarter under group captive and another 32 megawatt has also been added up. So, it becomes 512 megawatts, which is tied up. So you can say that 388-megawatt is open capacity at this point of time, for which I am giving a visibility that in next 24 months it will be completely tied up. And in the interim, we are working with various short-term bilateral contracts. So we are now doing certain small 15 days, 30 days contracts with various Discoms. We sell it in the exchange also depending upon the exchange prices. But those are so volatile that I cannot give any kind of strategic answer to that. So I will insist that you do not consider those in your evaluation and model.

Anirudh G: So just to clarify, the 388mw open capacity would be tied up fully with JSW Steel in about two years that is what you are saying?

Prashant Jain: That will be tied up. We will continue to look for various opportunities in the meantime.

Anirudh G: You already have for the current quarter tied up with Maharashtra essentially, for the short term. So those kinds of opportunities we will keep pursuing?

Prashant Jain: Okay. You know, we are tied up!

Anirudh G: At least Sir on the portals it is showing up. So I am hoping that we are supplying to them. Just on Ratnagiri itself, you were expecting to get the EC for use of domestic coal. And my second question was on domestic coal usage. Is the domestic coal usage going to come in only when we get something from Shakti or even in the interim, we will try to explore domestic coal usage at both Vijayanagar and Ratnagiri?

Prashant Jain: Number of options are available. We have got EC but consent to operate is in process. It is a matter of time we will be getting that. But there are a number of processes, by which you can secure coal. One is under Shakti and otherwise is on the spot auction, advance long-term e-auctions. So there are number of processes or portals, on which Ministry of Coal is auctioning coal these days. So we are working on each and every option and we will see meaningful progress in time to come.

Anirudh G: Fine. Thank you. I will go back in the queue.

Moderator: Thank you. We take the next question from the line of Dhruv Muchhal from Motilal Oswal.

Dhruv Muchhal: Sir, first question was in the inorganic opportunity. We have an excellent balance sheet and, of course, fit for growth in terms of inorganic also. But our recent transactions have not I mean not been fruitful in terms of JP or even in Jindal. And also I think based on reports, we are not bidding for the JPVL SDR assets. So just wanted your view on the inorganic opportunity we would be looking at because I also see a comment from you that you may not be buying any power plant above Rs3?

Prashant Jain: Dhruv I believe that it will be very, very prudent for us that we do those acquisitions which are value-accretive and we see immediate return on equity. We are very, very mindful about our position. We have mapped each and every asset on a competitive landscape from the long-term perspective. We would like to get into those assets where we can be ahead on a merit order dispatch on total cost. Because most of the assets are having an untied capacity, it is very, very important to assess their fuel cost, what is their location, what will be the fixed cost and how the transmission corridor is opening up for them and what kind of litigations and contingent liability are there on these assets. All these are very, very important and all these put together makes a blended justification for entering into any asset. So you can say that we will look at real accretive acquisitions and not simply for the sake of growth.

Dhruv Muchhal: So, to put it differently, are there any reasonable assets available? Because most of the assets you just said are untied or have some issues. So are there such decent opportunities available?

Prashant Jain: Yes, they are and they are very, very attractive. And we have a clear-cut strategy in place for that. We are in the wait-and-watch mode at this point of time – working on those assets. As and when right time comes, you will see us going very aggressive.

Dhruv Muchhal: Sure Sir. And the second question was on the venturing in the rooftops, which you have also highlighted earlier. But just wanted to get your views. Earlier, we were not venturing into the utility space because we thought the competition is very intense. The IRRs are pretty low. So how do you see the free market for rooftops? I mean, how different it is? How do you see it playing out?

Prashant Jain: As I mentioned in my opening remarks, you should not see this as a rooftop. You should not see this as rooftop or like normal solar park. I am talking about an off-grid solution, which will be well integrated with the energy storage space. Okay. We have started building up that capability with 7 megawatts and we will be ramping up very quickly. You will see that thing happening, and as and when battery prices go down, the entire home will go off-grid. Ministry of Power and CEA has identified that there is a 40000-megawatt potential in India to do solar rooftop. And which I feel can be much more than that, because entire rural electrification can happen on this and in areas where taking the transmission line is uneconomical, this is a very important solution for those areas. The Government of India will be working on this much, much more aggressively in time to come. And this is a long-term futuristic planning, which JSW Energy is doing. So we need to see in that perspective.

Dhruv Muchhal: Sure. Sir, just to understand it clearly, this is not the mini grids, system which operates, this is much more integrated operation?

Prashant Jain: This is off-grid. We are talking about off-grid. We are not talking about solar park on-grid systems.

Dhruv Muchhal: Thank you so much.

Moderator: Thank you. We will take the next question from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: Thank you for the opportunity once again. Sir, I understand the information on EVs you will be choosing and sharing the information there. But could you give us some sense on any new hires that you would have done? And any new distribution channels you would have started working on to give us some sense on your readiness for this product? And secondly, on any capex plans that you have given that you have small new investments planned now, and none of the acquisitions are planned for the next year. So what are the actual capex plans for the coming year?

Prashant Jain: I will take the second question first. We have a normal capital expenditure on an annual basis that is close to Rs100 crore, which will continue to happen in a couple of more years until we are having obligations on the new environmental norm, whichever are applicable for us are due in 2022. So, capital expenditure will be limited to Rs100-120 crore per year, which is a normal capital expenditure and whatever projects, growth projects we announce, that will be disclosed to everyone once we approve any project. Other than that, entire money will be going for improving the financial profile of the company. As regards to EV again, I will say that we are building organization capability, including hiring people. And you have to be watching our annual reports every year for more and more updates.

Abhishek Puri: Annual report is a long time away Sir, the next one. Thank you. I will come back for further questions if any. Thank you very much.

Pritesh Vinay: Operator, can we take the last two questions please?

Moderator: We take the next question from the line of Bhargav. Please go ahead.

Bhargav Buddhadev: Sir, I have couple of questions. One is, if we look at the DEEP portal, there is a purchase of about 700 to 800 megawatts of power done by MSEDCL for the period October to December, and the rates are also fairly attractive around 4.15 to 5.5. So, just wanted to check if it is possible to share if JSW's Ratnagiri plant has participated over here? And secondly, Sir you did stress upon that you are looking at Shakti auctions very seriously. So is it fair to say that for both Ratnagiri as well as Vijayanagar, you are looking at domestic coal and if yes, what could be the blended saving for both these plants if it is possible to quantify?

Prashant Jain: I can say that yes, we supply power to MSEDCL, but I cannot tell you about the quantum and rate, but we are very much there. In terms of sourcing of domestic coal, it will be both for Ratnagiri as well as for Vijayanagar. And on potential savings – it depends on a number of factors – which mine, what is the logistics cost, what is the GCV of that particular coal, how much is the premium I have paid into the auction. It is very difficult at this point of time to tell you. But I can tell you one thing very clearly that whatever way I look at it there will be savings.

Bhargav Buddhadev: Thanks a lot for this clarification.

Moderator: Thank you. Sir can we take another question?

Prashant Jain: Yes, one last question.

Moderator: We take the next question from the line of Anuj Upadhyay from Emkay Global. Please go ahead.

Anuj Upadhyay: Thanks for the opportunity Sir. Just need to understand that how much impact has back-ended monsoon brought on the overall demand, especially in the southern market? I am asking this because I have learned that Karnataka has scaled down their tender size to around 500 megawatts from 1000. So is it so?

Prashant Jain: Anuj, see I would not like to be so myopic about what is exactly happening in one particular month and other things. If I see that the demand in southern region, it has been consistently growing up and because in Telangana, the demand has grown by 19%, similar is the story in case of Kerala. And in those are the regions where rain is taking place recently. Same is in the case of Karnataka; the demand is very, very healthy. But as I mentioned, we are not getting excited about the short-term exchange power prices. We are working on a long-term strategy in the company and whatever short-term spikes or opportunities are coming our way, we are trying to capitalize on that. We remain well guarded and well positioned to take those opportunities, but I am more optimistic than I was in one quarter ago.

Anuj Upadhyay: Sir, about the tender size. Has it been scaled down to 500 or it still stands at 1000?

Prashant Jain: No. I am not aware about anything what the Government of Karnataka is doing. What I can say is that on a pan-India demand basis, southern-India demand basis, I am more excited than I was three months ago.

Anuj Upadhyay: Okay Sir. Thanks a lot.

Moderator: Thank you. Well that was the last question. I now hand the floor over to Mr. Bhargav Buddhadev for his closing comments.

Bhargav Buddhadev: Yes. We would again like to thank the management of JSW for giving us an opportunity to host the call. Sir, are there any final comments from your side?

Prashant Jain: On a closing note, what I would like to say that the macro trend which I am seeing in the power sector in terms of moderation in the capacity addition – rather the contraction in the capacity, consistent growth in the demand, and increase in the PLF of the thermal power plants, are demonstrating to me that without any meaningful increase in the industrial activity, the latent demand has come up, which I feel is primarily because the low-hanging fruits on Government of India's energy conservation initiative have played out. And now going forward, the Saubhagya scheme, power for all scheme, as well as the industrial activity can positively surprise all of us beyond 5%. Even if the demand grow by 5%, you will see the thermal PLF start going up and then that will reflect in more long-term PPAs. This will give us a lot of opportunities for growth and that is what is reflecting in our kicking of fresh capex cycle, which we have initiated. Second thing is that our entry into the solar rooftop is also going to open up a new segment, which is very futuristic, which we believe in the next 20 years will be taking a new shape in the power sector as off-grid solution. With that, I would like to thank each one of you for taking out time and remain interested in our company. Thank you very much.

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