Q2 FY2020 Analyst Meet

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Prashant Jain: Thank you ladies and gentlemen for joining us today. In terms of the macro environment, I think we have seen very big contrast this quarter, where power demand grew only 1.6% as compared to previous quarter where the power demand growth was 7.4%, and for the first half power demand growth was 4.4%. During the quarter we saw very interesting numbers. The thermal PLF at 52.5% was lowest ever in the last decade and on the generation side we saw generation in thermal sector was down by 2.5% and it was down by 9% in renewable sector, which is quite unusual. Hydro generation was very good, up by 9%. On the demand side, we saw, apart from north very depressing scenario. During the quarter, capacity addition was 5.1 GW and with that we are at 363.4 GW total installed capacity. The total merchant volumes were 13 Bn units, which was 6% lower YoY but 8% higher QoQ and prices in the merchant market averaged at Rs 3.16/unit, which was down 18% YoY and 4% QoQ.

While the macro environment in the power sector was subdued and many numbers were on a declining trend, be it tariff or demand, JSW Energy did exceptionally well. The short term sales were more than 100% up, we sold 759 million units as compared to 315 million units YoY. Our Deemed PLF, on consolidated basis was 79% compared to 77% on a YoY basis. Our Deemed thermal PLF was almost flat YoY at 69%. Our hydro power assets did extremely well, we had highest ever power generation since inception and our hydro PLF was 103% as compared to 94% previous year.

Our EBITDA was also up by 5% YoY, but our PBT was up by 21% YoY primarily because we reduced our interest cost by 12% YoY during the quarter. Our O&M cost trajectory has been consistently downward. We are the lowest O&M cost power producer in every category – thermal or hydro. For the last three years we have been constantly reducing our O&M costs in spite 6.5-7.0% increase in wage bill. That showcases how we have been deploying technology to optimize our costs.

During the quarter, we reduced our debt further and our Net Debt went down to ~Rs 9700 Cr, with that our Net Debt to Equity came down to 0.83x. With this, now I'd like to spend some time speaking on our growth strategy.

As we spoke in our last earnings conference calls, that our balance sheet is highly under-leveraged being in Power sector where optimum equity return comes if your balance sheet is rightly leveraged. Normally, we do 3:1 Debt to Equity and seek normative 15.5% equity IRR, but we could not find sufficient or right prudent growth opportunities in the last couple of years. We are a free cash flow company, so we have been utilizing this as an opportunity to repay and prepay our debt and that is the reason our balance sheet is quite under-leveraged. Because there is an opportunity today in the sector due to the stress in the sector and we were looking for growth opportunities, we found certain interesting opportunities.

Before I spend time on the time particular opportunities, I want to spell out the blue-sky thinking on the growth strategy. We are looking at a 10 GW capacity in the next 3-5year time frame. We are looking at opportunities where a few things are most important to us. First, we are looking at a normative equity return, i.e. if a project is to be conceptualized, 25% is equity and 75% is debt, on that normative 25% equity, we expect a normative RoE of around 15.5% Second important criteria for us is to manage the risks. Our counter-party is at all point of time is the distribution company and there could be certain aberrations in the receivable cycles, that we have seen and experienced can be managed well if you are in the bottom quartile of the power basket for a particular distribution company. If you are in the bottom quartile, the discom will always pay you on priority because power is a social sector for all these State Governments and they can never afford not to buy power. Thus, this is a very important criterion for us.

Now keeping these two things in mind, the third thing that is important for us to consider is that the payment cycle can anytime become worse for any distribution company, and every 3-4 years we see there is a scheme like UDAY and then distribution company's health improves. But by the time their firepower exhausts, the receivables cycle goes up. So the balance sheet should always have ample room to absorb such shocks for one or two quarters, before the government can take right measures. So while going for any acquisition or while looking for growth, we would be keeping sufficient headroom to bear such kind of shocks.

Keeping these three things in mind, we have chalked out this strategy and our strategy is pretty clear that Renewable Power is the future. That means going forward, more and more renewable power capacity will be added up and, less and less thermal power capacity will be added up. Today, of 363.4 GW total installed capacity, ~226 GW is Thermal, ~82 GW is Renewable, ~45 GW is hydro and rest nuclear. When India becomes 1 TW, we expect thermal capacity to increase to 250-275 GW, and the real increment is going to come from renewable energy space. And renewable energy space will be rightly coupled with hydro power, which can provide peaking power for ~3 hr in morning and evening. Therefore, when India becomes a 1 TW country, JSW Energy will be playing a meaningful role and we will more focused towards hydro, solar and wind. But in case of thermal, we see a one-time opportunity in the existing assets, which are available for acquisition.

During the quarter, we have announced two assets as part of our strategy. First is the Ind-Barath asset, a 700 MW pit-head power plant, where one unit was commissioned and another unit was under construction. As we speak, for the last 2-3 years, both the units have remained shut because of financial difficulties with that Company. Now, we have been selected as a successful bidder. The plant is located ~13km from the mine from which the coal linkage is allocated. It also has a dedicated railway line. As a result, the fuel cost for this plant is ~Rs 1.28/unit for current financial year. This is a classic text-book type case, where 90% capacity is tied under PPA and 10% is open. There are certain challenges with the asset as the asset was not operational for a long period of time. We need to spend at least 12-24 months to operationalize both the units, but of course with our past track record, we would like to do it at the earliest. Second challenge is that the PPA has been in default. Given the guideline by the Cabinet that for any asset under the NCLT, PPA should be revived and we have done the initial connect with the distribution company and we got very optimistic for revival of this PPA. The PPA terms are quite attractive, which is available in public domain. The levelised tariff for that particular PPA is Rs 2.73/unit. In terms of the acquisition cost, including one-time settlement cost and what we are going to invest, it will be anything ~Rs 3-3.25 Cr/MW. If this PPA does not materialize because of any kind of eventuality, then given the fuel cost is ~Rs 1.30/unit, it will be easy to secure a PPA anywhere, further on a ~Rs 3 Cr/MW cost, only Rs 0.89-0.90/unit fixed cost is required for the normative equity return, after factoring in 12% power to Orissa at variable cost. Therefore, at tariff of Rs 2.1-2.2/unit, and given the plant is CTU connected, we will be able to do PPA with anyone. And the third situation is, if we secure coal in e-auction, the fuel price will be ~Rs 1.85-1.90/unit. And the plant is at such a location where there is sufficient land and coal, and commercial coal mining is opening up. First, if we look at the Coal India profile, MCL is its only Indian subsidiary where the compliance of coal supply under FSA is 100%. Second, maximum capacity addition is taking place in MCL coal mines in Ind Barath valley. Third, maximum no. of coal mines for commercial mining are coming up in this location, hence, we are quite upbeat about it. Also, both the assets are located close to each other and there will be substantial operating synergy for us.

The second asset is GMR Kamalanga. This is also a good textbook case, where ~85% of the capacity is PPA tied and balance is open capacity. It is a Case-I bid for Haryana and Bihar and Case-II for Odisha. It is a pit-head plant, having a complete fuel linkage. And it is a very well-built plant operating at a good PLF. It is a low cost power producer; the fuel prices are in the range of Rs 1.50-1.65/unit, hence in bottom quartile of distribution companies – Haryana and Bihar. There is an option of adding another unit of 350 MW capacity, which can be setup in less than ~Rs 3.0 Cr/MW. This is an additional upside potential. We expect to conclude this transaction in the current financial year. Here there is an immediately operating EBIDTA and on the normative equity we'll get normative equity returns and on levered equity we'll get higher. So both the assets will be ROE accretive from day-one.

The third asset is Kutehr power plant where for secured concession for 240 MW power plant in 2009 and then till date we have spent ~Rs 270 Cr . We have 100 percent land in our possession and also all clearances in our possession. We have been waiting for two things to fructify before starting the construction – first, we wanted to secure a PPA and second, we wanted to wait for the appropriate time to revive construction. Our offer bid for power supply is been short listed by HPPC (Haryana), which is a favorable destination for hydropower because two states in the entire country – Punjab and Haryana, where paddy season requirement is at a time when hydro generation takes place and rest of the time their demand goes down and they do power banking. So it is very attractive for Haryana to secure power from hydro and then they came out with a 500 MW tender, in which we have offered 240 MW at Rs 4.50/unit levelised tariff, at our bus. They have already filed a petition before the commission and we are expecting that we will sign the PPA in the current financial year. The estimated project cost will be ~Rs 2,700 Cr including what we have spent so far and the project time will be 54 months.

There are two more things in terms of the growth strategy that I would like to spell out before we open the forum for Q&A. Going forward, we are concentrating more on wind and solar, and we have seen that earlier there has been quite a lot of predatory pricing in the renewable space, where people were trying to build a book in terms of doing attractive price-to-book valuation and then do IPO or sell that book, while not having real balance in terms of the cash flows. Therefore, many of them are in a stress situation and because of which sanity is coming back to wind & solar space. We saw that wind tariffs that went as low as Rs 2.48/unit are now back to Rs 2.93/unit and there are no takers. And the same is in terms of solar, tariffs are now back to Rs 2.78/unit from Rs

2.44/unit. So, we are very upbeat about renewables and we are working towards it, we have built that capability last year, we did ~10 MW within the JSW Group. Further, JSW Group also has certain RPO Obligations, and there is potential to do ~400 MW wind and solar for the Group requirement, which are contemplating to build. And also, we are looking actively at SECI bids and we are finding that at these current prices and in this environment where OEMs do not have enough off-takers for their equipment, we feel that we will be able to secure normative returns, so we are actively looking at that space which will be a growth lever for us.

In the thermal segment, there is an additional space of growth for us. As you all know we currently operate a pit-head plant in Barmer, Rajasthan, where we have captive lignite mines. Those mines have ~400 MT of extractable reserves, which is sufficient to produce 1200 MW of power. Government of Rajasthan has recently approved and the CM of Rajasthan mentioned in the budget speech recently that they will be going for additional 6000 MW of power from conventional resources in which 1200 MW will be based on the Jalipa and Kapurdi mines. So that is another growth opportunity, so far our existing asset there has generated very attractive returns, and as we are already present there, we believe we will be the most competitive going forward. We are expecting that in the next six months certain bids will be coming out for another 1200 MW based on this lignite. So that can be another growth lever for JSW Energy.

So we feel that with this Ind-Barath, Kamalanga, Kutehr,1200 MW from Barmer, wind and solar for Group and some SECI bids, we will be able to secure 10 GW in next 3-5 year time-frame. Of course, needless to say that at all points of time, we are very cautious to keep sufficient headroom and legroom in our balance sheet for any kind of eventuality and we will pursue any growth opportunity if it is giving RoE accretive returns and normative returns. With that I open the forum for Q&A, and we will be happy to answer any question that you have. Thank you.

Analyst Question: First question on the acquisition front, after Ind-Barath and GMR Kamalanga, do you have appetite to acquire more assets? Secondly, on the Ind-Barath PPA, in case you are not able to revive the PPA and given that you require a long term PPA for the fuel supply agreement, so what is your plan in that case?

Prashant Jain: So look at two things, number 1 is, we are reasonably confident that we will be able to revive this PPA. Before we went through with this acquisition, we had a channel check with the distribution company and we are already in discussions with them, and because this is very low cost power for them, in the merit order dispatch it comes in quite low in the cost bracket, and that is why Tamil Nadu is very keen. But there are two things, in the remote possibility the PPA does not fructify, as I explained earlier also. Number 1 is I can enter into a medium term PPA that is permitted to use the FSA coal. Now the pilot scheme 2 has come where you know the power price is Rs. 4.41 per unit, and if I supply power at lower cost that is very much possible. That is point number 1. Point number 2 is if there is a remotest possibility that I am unable to use the FSA coal supply, I can source the coal through e-auction, and with that also my fuel price will be Rs. 1.90 per unit. With that I can sell my power in merchant market and at all times secure normative return. As I explained earlier to secure my normative returns I need only 89 paisa as my fixed cost recovery and 1 rupee

90 paisa fuel cost adds to 2 rupees 80 paisa at CTU bus connected plant, and you know the merchant rates, at all time I will be making that money.

Analyst Question: On the transmission and evacuation, I believe there were some issues with Ind Barath when it was stressed. Is the transmission evacuation entirely sorted, and is there any untied capacity for the project, given that there was a PPA supposed to be signed with Orissa GRIDCO? Has it been signed or what is the status?

Prashant Jain: Look in this 700 MW, 12% is power to be given to Orissa at the variable cost. From Orissa's perspective, they will be getting power at Rs. 1.30 and they will be selling in the merchant market. So that PPA is already there. Balance is 550 MW gross power; net power 500 MW so there is approx. 70 MW untied power. So that is 1 question you were asking. The other question you asked about transmission and evacuation. So as I said one unit is already commissioned, but we will take 12 months to commission the first unit. 12-24 months for both the units. So that is the time we are contemplating upon to complete the railway connectivity of 2.5 KM from the mines to the plant. Then overhauling of the existing commissioned unit and connectivity of this transmission line. There are 7 towers that need to be re-erected because there is a diversion needed. So this is where the JSW expertise comes in. We have not taken over the asset but the action plan is already in place and our team has already acquired an office, guest house etc. and we are right now placing all kinds of orders so in next three months by the time we get the order from the court we will have everything in place including regulatory approvals etc. What other people so in Rs. 100 we do in Rs. 75 and what people do in 18 months we do in 9 months. So that's where we have already started working and team is in place at all times now at the site.

Analyst Question: Sir last question does the entire cost calculation include the FGD installation

Prashant Jain: Correct

Analyst Question: Thank you for laying down the strategy, Prashant, on the acquisition front. It has been extremely helpful to understand the broader framework. Two questions on my mind, one what is the level of Debt or leverage would you be comfortable with. And second in terms of Ind Barath, this deal looks too good to be true in a way. Last time when we heard about a too good to be true deal that was with JSPL. One which did not materialize. What is the way to complete this deal now, can someone else come in and now take this until the NCLT approves, what are the steps required to complete this now?

Prashant Jain: Jyoti would you like to answer this question

Jyoti Kumar Agarwal: On the leverage front, our leverage is very low you know by any benchmark. We are sub 3 times debt – EBITDA, and if you look at the current set of assets that we're talking about, they are of different types. One of them is already an EBITDA generating asset, probably optimize it more and improve the EBITDA by 15-20%. In that way this asset will self-sustaining in terms of the leverage. The second asset Ind Barath we expect it to be ready maybe in somewhere around 18 months' time. It's not that large an asset and our current EBITDA can sustain that kind of leverage before the asset starts generating its own returns. The third asset is Kutehr which has a 4-year sort of completion timelines and it's you know sort of back ended in terms of the spending. So I think we do have the capability to do these three assets without really stretching our leverage ratios substantially. If we were to look at further assets from here, then here again depending upon the timelines etc. there is room in my opinion to lever up a little bit. If we are lucky and let's say we are able to do 10,000 MW in 2.5 – 3 years instead of say 5 years then there will be a little bump in our ratios but then again it will start trending down as these assets are becoming operational. So right now we are not in a situation where we are worried about the leverage, of course of things turn out to be better than we have anticipated and there is a bump up then in that point of time we may want to calibrate how we kind of ramp up to 10,000 MW. At this time there is sufficient headroom for us to not be concerned about leverage. The second question I think Prashant can answer

Prashant Jain: Yeah, in Ind-Barath, there was bidding twice. First round there were two bidders and then again they started the process once again. Both the times there were close to 10-12 people who came forward for showing their interest but only two bids came. And power is a very difficult business and you need a lion's heart to be in the power business and anybody can come and say whether it may happen or may not happen. But that's a fate that we'll have to wait and watch.

Analyst Question: What will be the steps to closure of this deal?

Prashant Jain: So it's a NCLT driven process and NCLT has to approve because CoC has already approved our case and unlike steel assets or cement assets where everybody was keen to acquire the assets and there was a lot of litigation, for power assets the same is not the case. But we don't know if anybody is there who will come forward or any operational creditor is there who has a grievance you know, but I don't see much of a problem because the laws are well settled at this point of time because in the last 2 years there is lot of precedence for every kind of situation. That will be some advantage for the assets resolved under NCLT in the future

Analyst Question: Two operational questions, one on the 1st July starting of Telangana short term PPA which would've started, have you sold any volumes in the current quarter in the low demand environment, and if not are they liable to pay any fixed percentage. Second, on the 3-year medium term PPA, you've got the LOI, when is the expected PPA signing and date of supply. Thank you.

Sharad Mahendra: Yeah so regarding the short term PPA with Telangana from 1st of July. Seeing the present environment they have taken very small volumes and after that they have not been taking the supply. But as per the agreement they are liable to pay 20% of the total tariff on anything which is <70% of contracted volumes, and that is what we should be getting from them

Prashant Jain: But we have not recognized this in our results. As a prudent practice of recording on as-received basis it doesn't recognize that component.

Analyst Question: So it is not accounted for that is what you are saying. But you would've billed it to the DISCOM and they would be paying?

Sharad Mahendra: Yes, we have billed and they would be paying

Analyst Question: And you will be accounting when you get the bill on as received basis

Sharad Mahendra: Correct. And regarding the medium term PPA, we are one of the L1 bidders and few of the states who have given their consent to take power. So, this is on and we expect this will still take some time for PFC and NHPC as an aggregator to finalize as they are asking for some deviations which were not in the terms when the bid came. So that is still on, and though it may take some time seeing the present environment and demand in the southern states especially. So as and when the requirement comes we feel there will be some materialization but it will take some more time

Analyst Question: My question pertains to Utkal. So if I just get my numbers right, you said that at a fixed cost of almost 89 paise we are looking at normative returns and a total tariff of Rs. 2.89. So just wanted to understand that this is assuming the EV is somewhere around Rs. 3.2 Cr per MW. So do you see any risk of this number going up as we will be refurbishing the units?

Prashant Jain: It is including that, with a lot of margin. Including FGD costs

Analyst Question: And on the timelines of 18-24 months again I believe lots of cushion is built is or there could be delays there?

Prashant Jain: There is cushion in the timelines

Analyst Question: Again on the leverage aspect, what debt to EBITDA level would you be comfortable with. From the simple math that I did I figured that you could even use 100% debt to fund Ind Barath and Kamalanga, but what level would you be comfortable with?

Prashant Jain: On a consolidated basis?

Analyst Question: Yeah

Jyoti Kumar Agarwal: So look it would depend upon asset by asset. The way we look at leverage is that there is a sustainable leverage which the asset should be able to take care of, or repay over the course of the life of the asset. And for power companies you know ab initio to set up an asset 5.5 – 6 times is pretty much sustainable for 20-25 year life of the asset. Then there is a top up debt which you may have to do to acquire an asset to sustain till the time the asset starts generating EBITDA. At this time, we feel there is sufficient headroom and have not reached a point where we feel we need to think about as such. We’ve done the math on these three assets and we’ve done various scenarios as well, and we feel the peak debt to EBITDA will not be more than 3.5-3.7 at any point of time for these three assets which leaves us with sufficient headroom to do one or two more if need be. To answer your question, right now we are not at a point where we have to think if we are having enough leverage and we need to sort of cap it. There is sufficient headroom and we are at sub 3 times and our industry peers are at 5 – 6 times, giving sufficient headroom to expand in a sustainable manner. As I said earlier if we are lucky and we are able to double in 2 to 2.5 years then at that point of time we will have to think about ways in which we can lever ourselves in the short term way that we can sustain it for the short period through bridges or other type of loans until the assets start generating returns. This point of time I don't think we don't have any particular number given we are in a very under levered position.

Analyst Question: So when you say 3.5 times debt to EBITDA that is assuming the operational EBITDA for say Ind Barath or does it include the phase where the projects would be under construction?

Jyoti Kumar Agarwal: So this is the situation when we would have nearly done 20 – 30% of project cost of Kutehr done, 100% of debt of Ind Barath coming in just before commissioning and no EBITDA coming in from Ind Barath. Anyways the third asset has a very good EBITDA as well as the debt so I don't think the leverage there is an issue. So we're talking about just before the commissioning of Ind Barath and then it starts going down again because the Ind Barath EBITDA kicks in. Kutehr obviously will take more time. So at this point 3.5 is quite sustainable, maybe we can do even more. Do we have a number in our mind? No right now there's no number, and we'll consider it asset by asset and how does it fit into the timelines and what kind of cash flow will be coming in. At that point of time we will apply our mind, at this point of time I don't think we should be worried about the leverage.

Prashant Jain: Another thing you should look at; we are having a net debt of Rs. 9700 Cr, and we have Rs. 1000 Cr of loans and advances which will be getting resolved in next couple of months or quarters, which is a JSPL as well as a JPVL loan. We are 100% sure that the JPVL issue will get resolved, it is taking time but it will get resolved. So there's another Rs. 1000 Cr on that side. There's another Rs. 1600 Cr of liquid investment also that we carry in our balance sheet. JSW Steel shares that we are having, and we are generating Rs. 2000 Cr of cash profit every year. So if I am talking about Rs. 2000 Cr cash profit every year out of which Rs. 1000 Cr for repayment and Rs. 1000 Cr for fresh equity, we can add 1000 MW every year. And I will remain same under levered, and there are other tools available to us. So at this time the challenge is not how much we can grow, but how good quality growth can be brought in. There are enough opportunities that we can grow to 10 GW and have comfortable ratios. But can I have quality growth where my receivables are not at risk, and it's fitting into our strategy. So for example if there's a 12 month cycle where the receivables are going to 8 or 9 month delays, I would not be worried because if I can sustain the period I will also have interest arbitrage because my working capital interest would be 10% and I will get a late payment surcharge of 15%. But it is only applicable to those companies who are able to sustain because otherwise you give an interest cost payable and you discount it. So we have to maintain prudence. Quality of growth is more important than the growth

Analyst Question: One more question on the Kamalanga project. So we have a track record of operational performance of the asset and maybe you'll improve upon it slightly

Prashant Jain: Substantially

Analyst Question: Yes, substantially, so if you are looking to improve upon it substantially and are looking to secure normative returns, what is the enterprise value or range of EV where you would end up making that normative return

Prashant Jain: So I'll give you a very simple math which each one of you can calculate. If you do a project at Rs. 4 Cr per MW you need a fixed cost of Rs. 1.20 per unit for normative returns. You know what is the fixed cost of GMR, and to get a normative return that much will be the Rs Cr per MW, you will be able to calculate yourself the math. So in any case on a normative basis we will be working on a normative equity and normative returns. That will be the kind of returns that will be coming out. That will be further enhanced by a few things, one is operational efficiency by reducing O&M costs and point number 2, incremental capacity addition which can be done, and point number 3, the 15% open capacity which is not tied up will be tied up because now fuel supply SHAKTI linkage would be coming and even the fuel costs and working capital costs are higher. This way, the incremental EBITDA will be enhancing our normative equity return. All in all, it will be value accretive

Analyst Question: What has been the response of bankers when you have approached them regarding the lending for these assets, and what will be your plan B in case the PPA does not hold for Ind Barath? Would you be putting in more equity from your books and still go ahead with the project, or buy some more time to conclude the project?

Jyoti Kumar Agarwal: For all the assets and for all acquisitions, we do have a process whereby we have to tick all the boxes in terms of our ability to finance the asset. While the environment is quite challenging, two or three things are helping us in being able to raise financing in the power sector. One is the type of assets that we are going for, the second is that JSW Energy and JSW Group as such is one of the better groups and we have differentiated ourselves both as a power company and as a conglomerate in terms of our credit worthiness, and to that extent the banks are comfortable believing in our story, and our call in terms of our growth strategy. And for each of the assets we have financing options in place, Kutehr we do have a fully underwritten offer in terms of the full financing for the project. Kamalanga is already an operating asset and we would be just optimizing the debt in terms of the cost structure, there would be some top up debt etc. which we can work on. As far is Ind Barath is concerned, we have looked at both the scenarios, with and without the PPA, in both the situations there is more than one bank willing to support us. Obviously, the inherent risk in Ind Barath is a little bit higher given the under construction nature and questionable PPA of the project. We are most likely to follow the strategy where we sort of secure a bridge loan facility and sort of term it out at attractive rates as we get clarity on Plan A Tamil Nadu PPA and a Plan B PPA that Prashant will talk about, but we do have a Plan B and C in place. So I don't think the financing is as such an issue for these three assets. If we were to further look at expanding into renewables, what's happening in the renewable space is due to the over exuberance and the nature of people who are in renewables, relatively younger companies supported by financial investors more than anything, so there's a lot of resistance of banks to fund to those projects, and there are some challenges for these projects as well as there are aggressive bets taken. But renewable is the clear push for banks as well and they are looking at groups like us to enter the space in a meaningful way, and us tying up capacity, debt capacity for renewable should also not be a problem for us. So that's the way we're approaching financing as a whole

Prashant Jain: See we have been more conservative than our peer group in our capital deployment, otherwise we would be recklessly growing given there are so many opportunities in the sector for quite a long time. We know that each opportunity at what time and what value should be done. We have been more conservative than required and it has paid off well. Prudence is most important for us. I explained 2-3 rationales or alternatives as per which we can run this plant on merchant or another PPA as well.

Analyst Question: Why have the receivables increased in the first half of the financial year?

Prashant Jain: So these two were seasonal quarters for hydro, Q1 and Q2, so the receivables have gone up. Otherwise also, the receivables are on a deteriorating trajectory as there are certain DISCOMS which are having a poor financial health. That is bound to happen and we think we are in a cycle of deteriorating financial health of distribution companies, you may see this for the next year or so, before the new UDAY or some scheme comes. As I explained, it is more important for a company like us to have a kind of a cushion to weather such a shock which could become another opportunity for us to make more money. But we don't want this kind of a condition which could create this kind of a pressure on us.

Analyst Question: Orissa as a state is one of the most difficult one to operate and referring to today's interview of CIL chairman, so how do you see the situation as both your assets are in Orissa? As he was also mentioning incrementally increasing the production is a challenge given the law and order, land etc. So how have you taken that risk element in your plan for the acquisitions being in Orissa?

Prashant Jain: So both the assets are having coal linkage from an operating mine. One asset is already operating so there PLF is close to 78% and availability is more than 82%. Second asset is also from an operational mine and those mine capacities are expanding where these assets are located. So it's a brownfield expansion where the incremental capacities are coming. Second thing there are mostly evacuation challenges in case of Orissa, but in Ind Barath there is no evacuation challenge, it's a dedicated line from the coal mine to the plant. So these are fitting in our strategy.

In next 3-4 years' time there will be so much of coal in the country as less of thermal capacity and Coal India will be finding it hard to find buyers as thermal capacity is not going to increase and they will increase production by 3-5% every year. We cannot expect Coal India to increase the production at 10% every year and then they're talking about a 1 trillion-ton production in next 5 years, that may not be possible, but 5-6% growth is realistic. That kind of growth however I do not see in the capacity addition in thermal space. Rather there would be more retirals than capacity addition, because of which compliances of FSA would increase. So, 4 years' time frame, there would be more coal available and there would be more commercial mining. The new commercial mines takes around 5 years to come into stream. So, 5 years, you will be finding too much coal, and as far these two assets are concerned, there will not be a problem. Going forward, for all thermal assets if we look at our Ratnagiri and Vijaynagar power plants, these two power plants are based on imported coal, and we have already obtained all environmental and other clearances for domestic coal usage, but there is no clear roadmap for SHAKTI coal linkage for these power plants. But in 5 years' timeframe I see these power plants running on domestic coal.

Analyst Question: Second question, again is a conceptual one. Its been 6-7 years since your Barmer plant has been commissioned. It still does not have a final tariff and you are speaking about capacity expansion. Has anything changed there materially?

Prashant Jain: We have done other way round this time. We asked the Discoms to finalise a tender document to appoint an MDO contract for these mines and run the process. And, take a regulator approval before doing that, They did that and there is a reverse auction which is going to happen next month. So bid has been called for reverse auction. 5 bids have come and now in the reverse auction process. So, by June – July, I expect Variable cost to be determined. Fixed cost is already determined with only variable cost is to be determined. That’s why the Government is going for further expansion.

Analyst Question: But you had gaps in the fixed cost also?

Prashant Jain: No, there are no gaps in the fixed cost . Whatever is disallowed by commission, we have gone to APTEL. As far as Discom is concerned, they are now paying only whatever is approved. If I am going to get additional recovery by APTEL, that will be an additional upside coming to me. Right now, whatever number you are seeing is what Is already approved by the commission.

Analyst Question: Thank you. These are good acquisitions, given our current RoE is lower. However, on the two acquisitions, Do you think a ~16% RoE is lower threshold, given the risks?

Prashant Jain: It depends on opportunities. So, see two things. One is as far as our existing RoE is lower, it is not on Invested equity. On, invested equity, I am actually making more than 20% RoE. You are looking at Return on networth which is lower, because my balance sheet is underleveraged. If I lever my Balance sheet well, if I invest in a new plant where there is no receivable risk, has 1:1 Debt Equity ratio, my equity IRR and ROE will be less than 8%. Because I do it at 3:1 Debt to Equity, my equity IRR becomes 15%. So, ROEs are lower due to under-leveraged situation, not on the Invested equity. And, on the future opportunities, we said, we are talking about normative equity returns and without bringing our synergies, efficiencies and everything which brings upside. There is further upside, as Jyoti mentioned, is by levering the equity also. I need not invest 25% equity, I can invest 5% equity and 95% debt because somebody has already taken a haircut on the equity. He invested 25% but he is getting only 5% equity from me and then I take 95% debt. So then, on 5% equity my returns are much higher but Im calculating on a normative basis so that you know that we are not stretching too much because we want to be very prudent. So prudence is important for us. Hence, in the worst situation we are talking about normative return.

Analyst Question: Congrats on two very lucrative looking assets. Two questions – one is on the Ind-Barath you mentioned the tariff is 2.73. What we heard on the initial media reports which came was Rs. 4 plus kind of tariffs?

Prashant Jain: No, it’s fixed cost I said which is Rs. 2.73 without variable cost. That is a levalised cost, for a period of 15 years.

Analyst Question: Sure, and the tariff would be in what range- the earlier PPA?

Prashant Jain: First year?

Analyst Question: No, the levelised tariff?

Prashant Jain: Look it like this. If the plant is to be operated this year, the fuel cost will be Rs. 1.28 and the first year fixed cost will be more than Rs. 3.

Analyst Question: Second question is that, you have clearly articulated that the Debt-EBITDA is pretty much around ~3.5 times, what was the rationale of rating agencies on the recent revision of these ratings on the 4-5 subsidiaries and the company. Is there any immediate financial impact on the borrowing cost for us due to this?

Jyot Kumar Agarwal: Rating agencies have put our rating on a watch. Now this is because this is a developing situation and you know the final contours of the transaction, especially the Kamalanga asset are not yet finalized. So, we are in regular touch with the Rating agencies. They want to understand how will the leverage ratios sort of pan out post the acquisitions and post the Kutehr expansion. We've had a couple of sessions with them and they seem to be comfortable with the trajectory of the leverage that we have explained to them will happen because of these acquisitions. But given that the details of all the acquisitions are not yet fully baked in, they want to wait and watch till the final details are out to take a final position.

Analyst Question: Sir, Just couple of questions. Firstly, on the operational creditor side, how comfortable are you that it might not delay the process which we have seen in many of the cases, you know, going upto the supreme court and all. Any thought on that?

Prashant Jain: Look at this way. Two things – there are lot of laws now laid down by NCLAT and Supreme court now. The recent IBC amendment act and second is based on our interactions with the operational creditors in this particular asset. We are quite optimistic that we should not see any extraordinary delays other than the normal delays which usually pan out. So, that's why I mentioned that I am quite hopeful of closing this transaction within the current financial year itself.

Analyst Question: And GMR, what is your timelines?

Prashant Jain: Same this financial year itself. Before that, we will be declaring the share purchase agreement signing and also some colour on the contours; the closure we are expecting within the current financial year.

Analyst Question: Sure, and Sir, one last question from my side, we have some pending issues in Kamalanga asset such as some PPAs there were some change in laws. Is those issues for Bihar and Haryana, settled now?

Prashant Jain: Yes, The orders have come, and all are favorable orders as far as Kamalanga assets are concerned. So, that is why we had been really prudent in really flagging off all kinds of risks and we worked on that. And, there are certain conservative assumptions considered even in those orders also. So, there are enough upsides in that also.

Analyst Question: Sir, I wanted to understand what type of IRRs you expect to make at Kutehr at Rs. 4.50 tariff?

Prashant Jain: It is as per CERC regulation, 15.5%.

Analyst Question: Ok. And, since we have all the land, why will it take 54 months to execute?

Prashant Jain: Tell me which hydro project has been done in 54 months. Believe me, we will try to in fact execute better than this.

Analyst Question: Also, on the Renewable side; are you also open to inorganic side rather than growing on the RPO side, or growing organically and slowly?

Prashant Jain: We are open on Renewable side. But, again you know, we have been really prudent. The assets which were available to us are really high cost tariffs and we didn't want to enter into an Andhra Pradesh, Telengana kind of situation which some of the developers are facing. So we are carefully evaluating and may look accordingly. But yeah, we are open.

Analyst Question: What is JPVL loans status now?

Jyoti Kumar Agarwal: Around Rs. 574 Cr was written off out of around Rs. 751 Crore. Another update on the loans I have is that in the JSPL loan, around 10% recovery has happened over the quarter. So, the current outstanding is down from Rs. 331 Crore to Rs. 301 Crore. Our interests are being regularly served; and now we have an understanding with them to recover this amount over a period of time. So, there are all positivity around that position and not really seeing any sort of impairment.

As far as JPVL is concerned, there is incrementally a positive development as far as our conversations there. But the way to look at it is that the worst has already been provided. So there is not going to be any negative surprises there. Hopefully, there is going to be some positive news in the sense that we able to recover some portion of what we have written off there, at least.

Prashant Jain: There are also upsides of certain tariff orders which we are not accounting for Barmer. We have made certain necessary petitions at Barmer are we are quite hopeful about its settlement.

Analyst Question: Sir, this group captive of 400 MW Renewable project, what do you think about its timelines?

Prashant Jain: In another 24-30 months. We are in the process of finalizing land at various sites.

Analyst Question: And similar normative return of ~15.5%?

Prashant Jain: Yes

Analyst Question: Sir, where is the discussion now at GMR?

Prashant Jain: There are various points on which discussion are going on.

Analyst Question: Will the FGD capex happening at Utkal a pass through?

Prashant Jain: My total invested capital I talked is including the FGD capex.

Analyst Question: What is the timeline for FGD for that plant?

Prashant Jain: 2022.

Analyst Question: Sir, Rajasthan expansion you are talking about- will that be a regulated model as per the tariff policy?

Prashant Jain: As and when it comes you will come to know. It looks like it will be a competitive bid – like a Case I bid.

Analyst Question: Ok. So supply will be from the mine which you own.

Analyst Question: This is with regard to the TN contract with Utkal. You have talked and discussed with them. So, are the terms same or are they changing – I meant the terms which we are seeing in the PPA.

Prashant Jain: We are in discussion. What I have to say is that we have to create a win-win situation in order to do everything.

Analyst Question: What are the benefits you have received on the tax front?

Jyoti Kumar Agarwal: On the tax front, we are yet to make an election as whether we have to switch or not. But, our preliminary exercise suggests that, given that we do enjoy a lot of exemptions under 80IA for a lot of our plants, and a large amount of MAT credit available, it may not make sense for us to switch to the new tax regime because the effective tax outgo will be higher than it will be if I have to continue in the same regime. But obviously, we are in MAT for some of our key subsidiaries and to that extent there is a benefit because of the reduction in the MAT rate and that benefit will obviously accrue to us. This year we expect, for the full year, the benefit to be around Rs. 40-42 crore for the full year. This is at a consolidated level. After the pass through effect of taxes for the assets where we have two-part tariffs, the net accruing to us from a cash flow point of view will be around Rs. 20 Crores.

Analyst Question: For the Utkal plant, I just wanted to understand, from an equipment point of view, do you foresee any challenges – in term of maintenance and all?

Prashant Jain: No. We are saying this because we have discussed this with OEM suppliers, and as we are speaking, next week onwards, all will be coming and making technical proposals. So, we don't anticipate any difficulties in terms of operations and then the performance subsequently.

Analyst Question: On SECI bids, Sir, you have mentioned that you are open to look at those bids. What kind of threshold tariffs that you are looking at?

Prashant Jain: Normative returns are possible. Again, biggest challenge is in execution. Its not a perfect situation because in case of Renewable, please understand it's a must sell power. You cannot do anything about scheduling. And distribution companies receive the power and there can be a delayed payment. So, that's one thing which was not properly calculated. Second challenge is execution. For all SECI bids, the execution time is 18 months from the date of PPA. How many assets have been completed in 18 months time? And what happens is if the project is delayed, and even if you do the condonation of delay, you end up paying IDC and because of which your Equity IRR further goes down. That's what we are further working down. We are building that kind of a capability and we are mitigating this kind of risks. So, going forward, most of my time is going to be in understanding wind and solar space and then mitigating those kind of risks.

Analyst Question: Why is the Standalone EBITDA looking low despite a lower fuel and better dark spreads?

Jyoti Kumar Agarwal: It's the other income aspect.

Prashant Jain: Thank you every one.