



“JSW Energy Limited Q1 FY-22 Earnings Conference Call”

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MODERATOR: **MR. SUBHADIP MITRA – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY-22 Earnings Conference Call of JSW Energy Limited, hosted by JM Financial. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing ****** then **0** on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subhadip Mitra from JM Financial. Thank you and over to you sir.

Subhadip Mitra: Thank you Margaret. Good afternoon friends, on behalf of JM Financial welcoming you all to the Q1 FY-22 Earnings Conference Call of JSW Energy Limited. I would now like to handover the call to Mr. Ashwin Bajaj – Group Head & Investor Relations of JSW Energy Limited, over to you Ashwin.

Ashwin Bajaj: Thank You Subhadip, and thanks for hosting this call today. Good evening everyone, this is Ashwin Bajaj. It is my pleasure to welcome you to JSW Energy's Results Call for Q1 FY-22 as well as an update on our renewable led growth strategy. We have with us today the management team represented by Mr. Prashant Jain – CEO of JSW Energy and Pritesh Vinay – CFO of the company. We will start with opening remarks and then open it up for Q&A. With that over to you Mr. Jain.

Prashant Jain: Thank you Ashwin, good evening ladies and gentlemen. For the quarter gone by there was a very robust power demand which we observed at a growth of 16.4% during the quarter, which was primarily due to the lower base effect which was witnessed due to the lockdown in the year gone by, which was moderating over a period of time. In the month of April, the power demand growth was at 38%, which moderated to 6.3%. In the month of May and in the month of June it was 8.6%. Again, in the month of July the power demand has been growing at the rate of over 13%. We believe that during the current year we will be seeing a robust power demand growth because of the robust economic recovery, and lower base which was witnessed in the year before. That was also reflected in our total net generation growth during the quarter as compared to previous year at the rate of 4%, which was also reflected in the long-term net generation growth of 4%. The thermal generation was up by 13%, but the hydro generation was lower by 15% due to the lower availability of water. Because of this the EBITDA was almost flat, but our profit after tax was higher by 23% if I remove the exceptional item, which is Rs 92 crores higher cost which was primarily due to the green bond which the company has issued. Adjusted for that our profit after tax was at Rs 261 crores. During the quarter we also commenced the operation of our Karcham Wangtoo plant at higher capacity, which was approved by CEA in two phases. So, 45 megawatt additional capacity has been operational since then, and it will be increasing to 91 megawatt in the next season.

The receivables during the quarter declined 30% year-on-year, and it went up quarter-on-quarter by Rs 600 crores due to seasonality of the hydro power business, because of the excess selling which we do. Also, the core collection in the month of April and May, due to the COVID Wave-

2. We are seeing that this is moderating and it will adjust to the normal receivable cycle in 1 quarter.

The net debt of the company went up by another Rs 360 crore, primarily due to the CAPEX, also the lower cash due to the higher receivables. Otherwise, the company repaid more than Rs 200 crores of debt during the quarter. The strong liquidity is also maintained.

With regards to the projects which we are implementing, the SECI-IX PPA has been completely signed so now, total 810-megawatt PPA's are signed with SECI. Earlier we had signed 540 megawatt in the month of May. Now in the month of July as I had guided last time, this 270-megawatt PPAs are signed with West Bengal and Chhattisgarh. With regard to SECI-X 450 megawatt PPA, it will be signed in the current quarter as it has been outlined. Also, the 958 megawatt of the group captive PPA with JSW Steel has been signed.

In addition to this we have already brought the connectivity approvals for entire SECI-IX and SECI-X projects. We have also placed orders for all solar modules as well as the wind turbines with the leading OEM manufacturers. The construction is in full swing, and we have explained that the solar plant of 225 megawatt will be commissioned in the current financial year, and next financial onwards every month 100-150 megawatts will get commissioned in the SECI projects.

We are quite satisfied with the progress which we had outlined for our 2.5 gigawatt of the renewable power capacity. In addition to this, the 2 developments which are there in the renewable business. We have yesterday signed a collaboration agreement with FFI which is a 100% subsidiary of a FMG group, which is a listed company, a large iron ore producer and exporter having a close to \$ 80 billion market cap, with more than \$ 5 billion of net income, with a strong liquidity cash flow. This company has been working relentlessly for the green hydrogen and green ammonia projects for industrial application and mobility. JSW Future Energy and FFI have joined together to bring large pool of capital and industrial application and technology together to build green hydrogen and green ammonia, for various industrial applications and mobility in India.

To give you some background, close to 6 million ton of the gray hydrogen is produced in India at this point of time, which is produced primarily from the natural gas, coal and fossil fuel. This gray hydrogen is used for chemical sectors, refineries, fertilizers, and steel plants. The gray hydrogen can be replaced by green hydrogen, which is produced by water electrolyzer, which will be consuming green power, to produce green hydrogen and green oxygen. There is a large synergy between the steel plants and there the hydrogen is used by electrolyzer as well as heating of the ammonia which produces hydrogen. In all our DRI plants, in our annealing furnaces, in galvanizing lines, the hydrogen is used. Incidentally, JSW group is already running large electrolyzers to produce gray hydrogen for various applications.

This offers us an immediate application to start replacing the gray hydrogen with green hydrogen. In addition to that there is a big application to replace fossil fuel for mobility

application, wherein the hydrogen fuel cells can be used for in long haul locomotive running, for escalators, dumpers, trucks, cars and also ammonia can be used for running the ships. FFI has been developing all these kind of technologies and products, which together JSW and FFI will be evaluating for various applications.

Government of India and Niti Aayog have been working on a green hydrogen mission and policy. The comments have been invited by the industry and very soon a green hydrogen policy framework will be in place. The framework is outlined to be on similar lines the way the hydro power and renewable power was developed, by way of creating a green hydrogen obligation framework, wherein industry will be mandated to use green hydrogen to replace gray hydrogen over a period of time, and that will improve the penetration. The most important thing in this particular area is, is that it is a proven technology, and the only thing is that the cost has to be brought down. If I give color, today the gray hydrogen is produced between \$ 1.70-2.50 per kg., whereas the green hydrogen can be produced between \$ 3.75-5.00 per kg. This cost can be bridged by bringing this technology at a large scale, improving the efficiency and reducing the cost of power. These things will materialize over a period of 5-7 years' timeframe. And that is where we see a huge potential to replace this 6-million-ton market which is going to grow to 20 million ton hydrogen market by 2050. So, there is a huge opportunity in the green hydrogen, in addition to that, this is another market for a mobility, which is the future. And that is where the company is going to work along with FFI, to build various projects in this area.

Another development is also during the current board meeting, the board has given a in principle approval to re-organize the green and gray businesses, the green power and gray power business, in order to create the flexibility for the company to attract capital or strategic investors who are making certain choices to look at only green power business or gray power business. So, the board has mandated a board appointed committee to appoint financial advisors, legal advisors and valuers to suggest various options and schemes which will be considered by the board in due course of time.

With this I would like to end my opening remarks and I would like to offer the platform for any questions and answers if there are. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Aniket Mittal from Motilal Oswal Financial Services.

Aniket Mittal: My first question is on the green energy technologies that you are looking at. You mentioned about the framework agreement with Fortescue. Can you give a little bit more details? How do you think that the technology can become viable over a period of time? Secondly in terms of capital expenditure itself, is there any capital commitment you are looking to make on this technology?

Prashant Jain: The larger scale of operations will bring down the cost, like 5 years ago the solar power cost was more than Rs. 6.00, and today it is less than Rs. 2.00. The learning curve is changed based on

the size of the commercial production and that is what is going to happen in this area. This was the same story with reference to electric vehicles, so this is a proven technology. The only thing is that there are 3 components as I mentioned. One is 60% of the cost of green hydrogen is by power, and power cost is consistently coming down. So, if we are deploying certain technologies because of which the efficiency is going up, the power cost comes down, the green hydrogen cost comes down. The second part is the electrolyzer cost which is going to come down because of the large scale of production. The third thing is the efficiency of the electrolyzer, which is right now running close to 64%-65%, which is expected to grow to 80%. So, these are the 3 elements which is going to happen with a large scale of production over a period of next 5-6 years of time. The green hydrogen cost will be lower than the gray hydrogen cost. Like today, the green power cost is lower than the gray power cost. Already we have achieved that. It is the scale of the operations because of which it is going to change.

With regards to the capital expenditure just to give you the approximate color, the cost of the green hydrogen electrolyzers today are in the range of \$ 600-700 per kilowatt hour, which is going to go down by 80% in the next 10 years timeframe based on the estimates which has been done. That is how the learning curve is being projected. So, the costs are going to be at par in next 5-7 years' timeframe. Until that time, these things will get mitigated by way of RPO obligation, or green hydrogen obligation. Like 5 years ago solar power was sold at Rs. 5, Rs.6, and there were the solar power purchase obligation because of which there were the PPA agreements were there. Similarly, the green hydrogen purchase agreements will be coming up, and then in 5 years' timeframe these costs will be coming down. These are with respect to the industrial application which will be in the refinery and the fertilizer space. Then, mobility area, it may be taking little time, but we believe that the large-scale operations like mining, and locomotives, ships, these are the areas where it will be economically viable in probably 4-5 years' timeframe.

Aniket Mittal: Just a concern. This agreement with Fortescue does this involve any capital commitments right now, let us say in the next couple of years I understand it's still more of an assessment process for you but in the next couple of years would this entail any sort of capital investment?

Prashant Jain: Yes absolutely. It will be coming as soon as we complete our scoping exercise, there will be various projects will be conceptualized, and then passively presented before the respected boards, and then boards will be deciding to look at those opportunities and evaluating it and then considering those capital commitments. As and when the respective boards of both the companies consider that, we will be informing to you.

Aniket Mittal: One more question to get an understanding on the current ordering pipeline on the renewables front. It is very evident that our focus has been on the wind and hybrid side, especially in the recent bids. Just to understand in your assessment what is the quantum bids that you see coming from and SECI other states on the wind, and the hybrid projects over the next 15-20 months. That will give us an idea of the opportunities that you have over there.

Prashant Jain: I look at it this way. Typically the 5% demand growth, we are talking about close to 9 gigawatt of the demand, which will be required to be met by the renewable sources for that approximately 25-30 gigawatt of the renewable capacity is required. That is the kind of quantum that various agencies will coming every year.

Aniket Mittal: Particularly on the wind and the hybrid front?

Prashant Jain: It is very tough for me to tell you that how much will be hybrid, and how much will be standalone, but you can on a consolidated basis you can consider 25-30 gigawatt per year.

Moderator: The next question is from the line of Subhadip Mitra from JM Financials.

Subhadip Mitra: With regard to the earlier questions wherein you mentioned that one can look at 20–30-gigawatt annual pipeline in terms of tenders based on you know based on tariffs, in your opinion given that we have basic customs duty and which will come into force from next year, would you perceive any short-term capacity constraint that can come up given that domestic solar manufacturing capacity is probably in the middle of 6-7 gigawatts?

Prashant Jain: There are 2 ways to look at this situation. Number one is that you can still import the panels but then the price of the panels will be higher, and that will reflect in higher tariff in the bids and that is what you might have seen and observed that the tariff which was secured before this announcement of 40% duty, the tariff in the bid was close to Rs. 2.00, rather Rs. 1.99 which went up to Rs. 2.43, there is a effectively 21% increase in the tariff which has already happened, which is a reflection of a higher duty as well as there are new capacities which are coming up for manufacturing panels in India wherein the cells can be imported, where the duty on cells is lower than the panel, and also there is an incremental cell manufacturing capability which are also coming up, which will be on stream in production in calendar year 2022 and will be importing wafer and there the duty is 0. It is going to be a hybrid situation where some capacity will be imported in the panel form, some capacity will be imported in the cell form, and panels are manufactured in India, and some capacity will be in the form of import of wafer and cell and panel are manufactured in India. Because of which this blended tariff will be arrived at what you are seeing at 21% increase in tariff. We need to really see how the domestic capacity is ramped up. I believe that with this duty the ramp up in the capacity will be rapid, but there will be upward pressure on the tariff on the solar power in time to come.

Subhadip Mitra: Secondly as you mentioned with tariffs starting to move up, my understanding was that the reluctance from many of the DISCOMs to sign solar PSAs was because of the race to the bottom in terms of tariffs and everybody wanted to wait for the next tender which started giving a slightly lower tariff. Now that trend has reversed, are you seeing some kind of traction in incremental PSAs getting signed?

Prashant Jain: I believe that they will be getting signed now because that was the problem which was happening in solar PPAs. I don't think tariff is the problem, it is the trend and fluctuation is the problem,

and that is why you can see that 810 megawatt of our SECI IX PPA 100% of the capacity is tied up and PPAs are signed, and within the shortest span of time, which was not even seen in the solar days. It is more of the fluctuation and more of the variation that is what has been a deterrent in signing of the solar PPA, which I believe will be signed because the tariff will start moving up.

Subhadip Mitra: Just last part a clarity on this SECI IX PPA signing you were mentioning, the back-to-back PFAs with the respective DISCOMs have also been signed.

Prashant Jain: Absolutely, they have been signed and made effective.

Moderator: The next question is from the line of Mohit Kumar from DAM Capital.

Mohit Kumar: First question is we have chalked out 10-gigawatt target till FY-30, In this particular 10-gigawatt, how much is basically captive PPA and second question is how are you pricing?

Prashant Jain: Firstly, it is not 10 gigawatt, we are talking about 20 gigawatt capacity by FY-30. Second is, all PPAs are tied up by a competitive bidding whether it is captive or whether it is third party, and they have to participate, and we are not sure whether we get it or we don't get it. Captive also, it was not our choice to get it from JSW Steel. It was a competitive bid which was organized by JSW Steel and participated and we became L1 and we got it. The SECI bids also we secured because we became L1. It is not in our hands how we get it.

Mohit Kumar: During the quarter of operation of Karcham Wangtoo, the capacity went up to 1,045 megawatts. Are you selling the excess capacity in the merchant market or is it under the cost-plus basis.

Prashant Jain: We have the bilateral agreements under which we are selling and we will be signing of a PPA in due course of time.

Mohit Kumar: This 45 megawatts is additional right, over and above the PPA?

Prashant Jain: You heard me right.

Mohit Kumar: Last question on the hydrogen, is this agreement with FFI exclusive to us? Are you willing to perceive the PLI scheme which will most likely come up in the next 8-9 months especially in the electrolyzers?

Prashant Jain: We are not talking anything about the manufacturing.

Moderator: The next question is from the line of Swarnim Maheshwari from Edelweiss.

Swarnim Maheshwari: You have mentioned on the green hydrogen side that the mobility area is likely to take some time like 9-10 years. On the other hand, we are just witnessing that there is a ramp up at the EV that we are looking and maybe in the next 5-7 years there will be some meaningful adoption

towards EV. Just wanted to understand your thoughts whether both the things will coexist or green hydrogen threatens to eclipse the EV side really.

Prashant Jain:

Right now, we need to understand one part. This is a proven and established technology which is already prevailing to produce green hydrogen and there is a market which is available in the country. There are the two ask in the current environment. One there has to be a policy environment for developing this technology on a mass scale for replacing the gray hydrogen. That is one side which I have explained that the way the gray power was replaced by the green power, by a policy intervention with a certain purchase obligation the same, the same way the new policy framework is being institutionalized, and Government of India has already started the consultation and stake holder consecration has started and probably we can see in 12-18 months' time frame that policy will be in place. Second thing is to reduce the cost, which will be happening by increasing the size of such market. Because then only the commercial production and more and more investments are going to come up in this area, and that will be reducing it. That is why I said with these two initiatives, in next 5 years' time frame, the green hydrogen will be at the cost parity with the gray hydrogen. These are the two sides on which it will be working, and we will have to be, the space will be evolving the way you have seen the renewal power has evolved or the way you have seen the electric cars have evolved. Electric cars were not economically viable 6 years ago. Today they are economically viable. You can do the commercial production and sell them. Same with the renewable power. Same way, it will be happening with the green hydrogen.

In case of the mobility, it is going to take time because you know you need to sync. The hydrogen is going into the fuel cell and then fuel cell is generating electricity, and then that electricity is running the car. Now the technology is being developed that directly from the hydrogen the car is powered, or the engine is powered. Then the real efficiency will be coming up and for that we believe it is going to take some more time. However, for certain commercial applications as well as long haul mobility applications it will be absolutely economically viable, in 5 years' time frame.

Swarnim Maheshwari:

That implies basically that both the things can co-exist until the next 5-7 years.

Prashant Jain:

Yes, green power and gray power are going to co-exist maybe more than 10 years, 15 years also. I don't see that everything will be switched over overnight. Even the electric cars are not going to replace the IC engine cars, even for next 10-15 years completely. But yes the penetration is becoming much faster because the moment the cost parity comes the replacement or the transition happens very quickly. Like today our power demand is growing every year by 5%. But the incremental power which is going to be generated by the renewable sources only. Because the cost parity has already come. The power of whether it is produced from the gray fossil fuel or from green power, it is the same. But the tariff is lower for the renewable power. So, it is cheaper to do that. Only that is the transmission cost is higher because of the intermittency. So, that intermittency is also being taken care by the new technological intervention which you will be seeing in the next 1 or 2 quarters we will be talking about. That

is also going to change the future globally and also in India. We are taking certain decisive steps to take care of this intermittency and solving that issue for the grid.

Swarnim Maheshwari: Second thing on this recent dollar issuance of \$700 million, just wanted to understand what was the hedge cost and till what level are we hedged that is the first. And just the your thoughts on more dollar loans in times to come.

Pritesh Vinay: You know the coupon of the bond is 4.125%, it is a 10-year duration. What we have done is we have done a call spread for the entire 10 years, for the entire \$ 707 million. This was a 10NC 5 bond right; this is a callable bond in 5 years. What we have done is in the first 5 years we have covered spot to ATMF and after that there is a range. Because at the end of 5 years there is an option for a liability management subject to markets and levels and spreads at that point of time. So, the all-inclusive cost in INR terms is about 8%.

Two things. First is that the current INR loans which are all linked to banks MCLR are essentially floating rate loans. Given where we are with inflation coming back, it is broadly understood that the rate curves should be steepening going forward. So, what we have essentially done is by doing this, A: there is a headline cost reduction because the INR loan was more than 8% that we have replaced at the current MCLR plus spread, more importantly we have blocked this 8% for the next 10 years, in a rising rate environment. That is the other unquantifiable benefit sort to say.

Moderator: The next question is from the line of Abhineet Anand from Emkay Global.

Abhineet Anand: The bond that you have raised, is it fair to assume that for all your RE power that you are going to put in, the average cost should be near about the same?

Pritesh Vinay: I wish I were able to give a clearer answer on this. At any point of time there are different components. Let me give you different possibilities. For example, this was a BB+ class, this was not an investment grade. Now depending on the counter parties, you have, SECI for example or any other sovereign entities of the counter party, you can potentially have a one notch higher rating, which means a tighter coupon. But the unknown is where do you think the 10 years reverse treasury will be at the next time you are trying to lock tap into the market, and what will be the credit spread and the term premium outstanding at that point in time? So, there are too many moving parts, everything else remaining the same, given that here our counter parties for this particular bond were non-sovereign entities and therefore it was a BB+. The expectation is this, if we are potentially tapping future issuances for a renewable project especially with SECI as counter parties, they are likely to be investment grade bonds and there the coupons should be even tighter than this, everything else remaining the same. To put it in perspective, had it been a SECI bid like what we have done, and in the same condition it would have billed anything between 3.5 to 3.75 as against 4.125.

Abhineet Anand: I think Prashant mentioned that the tariffs that have increased, and he did mention basic customs, isn't the basic customs duty applied from April 1st of 2022? So, isn't the present tariff more of a function as solar module prices globally have gone, you know the way Chinese prices have gone up right?

Prashant Jain: No. You need to understand when the bidding happens after that PPA is signed then it becomes effective and then you get 18 months to complete it. If any bid is happening today, after 3 months PPA will be signed and you get 18 months to complete it. So, that time duty will be applicable.

Moderator: The next question is from the line of Apoorva Bahadur from Investec.

Apoorva Bahadur: At the beginning of this presentation, you stated that the board has approved green and gray power in the organization. Could you throw some light on that as to what are the timelines expected and what sort of outcomes are likely over there?

Prashant Jain: There will be a separation of 2 business verticals in this which will be examined by the various advisors, we are expecting that in the next 90-120 days' time frame, the options will be crystalized and presented to the board and then once the board approves, the necessary steps which will be required to be taken will be taken, which will be various stakeholder approvals including lenders, shareholders, and maybe we need to go to the NCLT to do this reorganization or restructuring of the business. So, that will be step A. Step B will be, at the right point of time we need to decide that if any strategic investor is coming into the green power, or any IPO of the green power business, or de-merger of green power and gray power, there are a number of options on the table and we will be evaluating all those options in due course of time. For that, we are keeping first the structure ready with all necessary approvals in place and then accordingly all those options will be tapped.

Pritesh Vinay: If I may add to what Prashant mentioned, you also asked what kind of scenarios can be likely, it will be a bit premature to comment on that because you know when this evaluation, the board's approval is to evaluate various options to reorganize and go into the merits of each of those options, what are the transaction costs, what kind of approvals etc., you know there are stamp duty tax implications, there are compliances with Companies' Act, SEBI, LODR requirement, etc. A very holistic view has to be taken, all that we have gotten an approval at this point of time is to go ahead and start working with advisors, etc., to start evaluating the merits and de-merits of various options. Once we have completed that exercise as Prashant mentioned, we will go back to the board and present. And at that point of time things that Prashant was talking about will kick in. Just thought I will make that very clear. However from an intent point of view there is absolutely no ambiguity. Today if you look at our corporate structure we have JSW Energy and then we have Hydro as a separate 100% owned sub., we have Future Energy as a 100% sub., which is basically the vehicle at this point of time, but for all the wind and solar initiatives. What is the most efficient way to house potentially all of them together if there is an opportunity to get a potential investor for all the exposure to the green affects only, one can have the flexibility to do that, so that is the broad thought process. I just wanted to make it clear that the approval

now is to start evaluating various options and go into details of the merits of multiple options available.

Apoorva Bahadur: Hydro assets will sit in the power, right?

Pritesh Vinay: Again, the point of giving my previous answer was that it is premature to preempt what is likely to happen. The idea is to what are the pros and cons of different optionality's and is it the route the board would want to follow. I would not want to preempt the discretion of the board at this stage by trying to second guess what is likely to happen.

Apoorva Bahadur: Just one more question on our agreements with FFI, now I understand that it is more of a long-term guidance we are seeing the way this cost of green hydrogen goes, hopefully it falls to the range where it becomes viable then what sort of business model are we looking at over here? For JSW Energy?

Prashant Jain: It will be economically viable from day 1. The thing is whether you are able to match the price with the gray hydrogen then there will be no production of the gray hydrogen incrementally in the country. That is what happens. You are producing the renewable power; it was higher than the thermal power. It was economically viable. But the tariff at which the PPA was being signed was Rs. 6.00, Rs. 5.00. Government globally as well as in India is coming up with the green hydrogen purchase obligation in which the industry will have an obligation to purchase green hydrogen or green ammonia for various industrial applications so there will be economical viability day 1, whatever projects are undertaking. But in 5-6 years' time frame the cost of the green hydrogen will be at par with the gray hydrogen. At that point of time all incremental capacities will be by the green hydrogen.

Apoorva Bahadur: We will be looking at reducing green hydrogen or supplying the power, green power which is required for producing the green hydrogen?

Prashant Jain: It is a combination.

Apoorva Bahadur: Okay, so we will be running the electrolyzers as well.

Prashant Jain: Absolutely.

Moderator: The next question is from the line of Rahul Modi from ICICI Securities.

Rahul Modi: Just a couple of questions. When do you expect the bidding, in terms of whether SECI, non-SECI, because over the last 4-6 months we have seen a bit of sluggish bids coming out. When do you expect this to take off in a meaningful way because obviously we all want that 20 gigawatts should start getting tenders. What is your internal thought process on that?

Prashant Jain: You are seeing quite a good amounts of bids. The problem is on the solar side there has been a little bit of sluggishness in terms of converting the bids into the PPA. But I believe that is also

going to ramp up over a period of time. Because now what SECI is doing is a very different structure. First we are signing the in-principle PPAs with the respective DISCOMs and then they are coming out with the bids. That is what is eliminating the risk of signing the PPAs. You will see a pick-up now going forward. It is going to be very rapid.

Rahul Modi:

What is your thought on this recent Andhra issue? Andhra has been talking about reducing costs in terms of power purchase cost. That has also come at a cost of backing down of a lot of renewable power. Any thoughts on that? How do you see business model of renewable energy going forward? Do you see that we will be getting into a deem generation kind of a thing? How will it work according to you?

Prashant Jain:

I look at this way all the power purchase agreements have a sovereign obligation document, which have been held by all adjudicating authorities in this country. I do not see any kind of risk in any of the power purchase agreement, which has been signed at whatever tariff it has been. There has been some hiccups by certain DISCOMs in the past, but eventually the law of the land has prevailed and the people are getting the requisite relief from the higher adjudicating authorities. That is what sometimes you face the challenge in a developing technology. Like when you build a technology in when there is a learning curve which is happening the costs are coming down, then certain authorities take a different view. The way the PPAs have been structured, they cannot be reneged. That is point number 1. Point number 2 is that going forward, there are two, three things which are happening. Number one, when new agreements which are being done, they are being done by SECI which is a part of the Ministry of Power. That is number one. It is changing the quality of PPA. Number two, 2 structural reforms are taking place in this country, and which are in the very advanced stage. Number 1 is the smart metering concept which is there. Which is not only smart metering for tempering for the theft. It is implementation of a pre-paid meter construct which will be implemented in next 3-5 years' timeframe in the country. That digital meter will be enabling that power flow will automatically stop if your meter is not charged by way of simple mobile phone SMS. Point number 2 is another structural reform which Government of India is pushing, the subsidy which is being announced by the State Government to the DISCOM will be paid directly to the consumer. The moment this happens, then DISCOM will be having enough cash flow. These two reforms will change the entire thing. You don't even need the privatization if these two things are taken care of. The entire economics is also going to change in the next 3-5 years' timeframe, in addition to the legal sanctity of the PPAs.

Moderator:

The next question is from the line of Sumit Kishore from Axis Capital.

Sumit Kishore:

After a long time, we have seen an increase in net debt in JSW. Could you elaborate on how much CAPEX has been spent for the Kutehr project so far, what is the project progress and when is it going to be commissioned?

Pritesh Vinay:

On the CAPEX size on a lighter note, I want to remind everybody on the call that I remember my very first call after moving to this role in the month of October of 2020. Prashant mentioning

in the earnings call that we are at the end of the de-leveraging cycle. Then two more quarters went by, the December quarter and then the March quarter, and we kept on reducing the net debt. That was on a lighter note. Yes. We are 2 quarters behind the curve and beginning to start see leveraging. On the Kutehr project specifically so far we have already spent over Rs 650 crores. Construction is on full swing. We have already committed close to Rs 1,800 crores, in terms of the ordering, placement of orders etc., as we have guided to the markets our targeted COD is September 2024. We are actually working on internal targets to commission well before that, but at least September 2024 does not appear to be at any risk whatsoever at this point in time. The project construction is progressing well. More than 30% of the tunneling work has already happened, all the phases, all the sites are open. All the civil packages are on in full swing, the electro-mechanical packages are also underway. So, that is on the Kutehr site.

Sumit Kishore: So, the CAPEX really went into this project right during the quarter.

Pritesh Vinay: No, we have also spent during the quarter on the renewable projects as well, it is a mix of both. If you are saying that construction is on in full swing at our renewable sites also, we have already started spending money especially on the solar projects. Starting from this quarter actually, the current quarter, the second quarter as and when we report, you will start to see a higher CAPEX outflow because as we mentioned in the presentation and the release as well, the solar panels for example, the ordering is already done. We have finalized orders for the wind turbine equipment and during this quarter we will start making advance payments under the terms of the contracts the cash outflow will start increasing materially starting from this quarter onwards.

Sumit Kishore: And next quarter onwards if you can start sharing the capital work in progress numbers for both hydro and renewables so that we get a better sense on progress. My second question is for the 958 megawatts group captive PPA signed or what is the tariff at which it was signed and who were the other bidders and at what tariff they bid at?

Prashant Jain: I don't know what the other bidders have bid the tariff that JSW Steel cannot answer you that. We have already disclosed our blended tariff for entire 2.5-gigawatt capacity.

Sumit Kishore: What is the tariff for 958 megawatt?

Prashant Jain: For the blended tariff which we have disclosed already, it is Rs. 3.30 is the blended tariff for 2.5 gigawatt.

Sumit Kishore: My third question is there is there was a sunset of the SGD yesterday and no new duty seems to have been announced to replace it so how are you seeing this interim period before the April 22 basic custom....

Prashant Jain: As I explained just now there are the 3 models based on which every developer will be working. As far as we are concerned, what projects we are undertaking, we will be receiving the 1st shipment of the panels in 1st week of September. All our capacity whatever capacity of we are

building to 225 megawatt, the entire panels will be received before December of current calendar year. There will be no duty incidents as far as what has been announced so far. In case, there is a continuation of the safeguard duty or anything, it will be applicable to us. And going forward, there is a strategy which people are building. Either they pay 40% duty and they import panel, or they import the cell and get the panels' contract manufactured in India, or they import the wafer and do the cell and panel manufacturing on the contract basis. There is a lot of capacity getting built, you can do the contract manufacturing or you can do all three. So, there are number of options depending upon each developer, what global strategies will be played out.

Sumit Kishore: Just to reconfirm of the 2.5 gigawatt under construction excluding the hydro project, what would be the mix between the wind and solar now, because it keeps evolving?

Prashant Jain: In this 2.5-gigawatt, 240 megawatt is the hydro, 225 megawatt is solar and balance all is wind, close to 2000 megawatt is wind.

Sumit Kishore: I attended a session by Niti Aayog where they mentioned that coal-based power capacity in the country since it is so dominant and thermal capacity and used to step up production of blue hydrogen as they called it and utilize the fixed investments better before you go directly to the green hydrogen economy. Do you have any thoughts on this?

Prashant Jain: No, I am very clear that it is going to happen faster than anybody is thinking. Like everybody was thinking that the thermal power capacity will keep on adding in this country, but policy framework does not permit it. Because based on the RPO obligation, even the DISCOM wants to buy power at Rs. 2.00 and enter into a PPA they cannot. Because they have an obligation to increase their RPO obligation. So, the direction is very clear. Number 2 is there is no capital available either from the lender or from the capital market to build such kind of capacity. So, the direction is very clear. It depends individual to individual when they want to accept the reality.

Moderator: Ladies and gentlemen, due to time constraint that was the last question for today. I now hand the conference over to Mr. Subhadip Mitra for closing comments.

Subhadip Mitra: Thank you, on behalf of JM Financial I would like to thank the management for this opportunity to host the call. I would now like to handover the call to Mr. Ashwin Bajaj for any closing comments.

Ashwin Bajaj: Thank you Subhadip, and thank you everyone for joining us. Please feel free to contact us if you have any further questions, thanks.

Moderator: Thank you. On behalf of JM Financials that concludes this conference. Thank you for joining us and you may now disconnect your lines.