



“JSW Energy Limited Q3 FY23 Earnings Conference Call”

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MANAGEMENT: **MR. PRASHANT JAIN – JOINT MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
MR. PRITESH VINAY – DIRECTOR OF FINANCE AND CHIEF FINANCIAL OFFICER
MR. BIKASH CHOWDHURY – HEAD INVESTOR RELATIONS AND TREASURY

MODERATOR: **MR. ABHINEET ANAND – EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY23 Results Conference Call of JSW Energy, hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now I hand the conference over to Mr. Abhineet Anand from Emkay Global Financial Services. Thank you, and over to you, sir.

Abhineet Anand: Thanks, Lizann. Good evening, everyone. I would first like to thank the management for giving us this opportunity to host the call. Today, we have with us from the management Mr. Prashant Jain, Joint Managing Director and CEO; Mr. Pritesh Vinay, Director of Finance; and Mr. Bikash Chowdhury, Head Investor Relations and Treasury, JSW Energy. We will have an opening remark from the management post which we can have the Q&A. Over to you, sir.

Prashant Jain: Thank you Abhineet. Good evening, ladies and gentlemen. And firstly, wish you a very, very Happy New Year to you and your family. So the quarter gone by was a, good quarter in terms of the power demand, wherein we saw 6.4% power demand growth year-on-year basis.

And for the nine months, the power demand was at robust at 10% year-on-year. In the month of January, for the first 20 days, the power demand has been growing over 15%. So all in all, we have been seeing very good trajectory in terms of the power demand. In terms of the generation, for the Q3, we saw the renewable generation up by 14.1%. And for the nine months, 16.4%, demonstrating that the renewable growth is continuously improving.

The total installed capacity is seen at 410 gigawatt. And during the quarter, we saw the capacity addition of 2.5 gigawatt. And for the first nine months, it is 11 gigawatt, which is in contrast to the last year's full capacity addition of 15.5 gigawatt. It appears that we will be a little short of the capacity addition as compared to the last year.

Now in totality, we are heading 165 gigawatt of the renewable capacity, which is close to 41% of the total installed capacity. The merchant prices of the power were down by 7% for the quarter, which was at an average of INR 4.55 in Q3; and volume was down 14% in Q3. Whereas the API 4, price it was 37% higher, at \$227 per ton.

This is what explains that Q3 was quite a different situation where the price of the merchant power was down, in spite of a robust 6.5% demand increase and the fuel price was 37% higher, and that's where the merchant volumes were dipped dramatically.

However, in the current month, the thermal coal prices have moderated substantially, and now they are reading at \$170 per ton API 4 index. Now coming to the operational performance of the company. During the quarter, the net renewable generation was up by 3% and net long-term generation was flat at 4.2 billion units.

Overall, a generation was down by 5% at 4.3 billion units, primarily because there was a 230 million units lower merchant sales during the quarter. If you remember last year, October was a

substantially super-duper month for the country where the prices were substantially higher and power demand was up at 12% because of its higher base effect and extensive range, the power demand growth was negative in the October month this year. And the other thing, which I explained, the tariffs were lower and fuel price was higher because of which there was a delta of 230 million units lower merchant sales.

However, during the first nine months, our generation is output by 2% at 16.8 billion units, which is primarily one more important thing is that in the first nine months, our merchant sales is up by 65% year-on-year, which is in excess of 450 billion units. But the generation overall increases in 2% because there was no schedule available for our unit-1 in Maharashtra.

And there, the loss of the generation was 550 million units. Otherwise, on a long-term contract basis as well as on a short-term basis, the company has been performing exceptionally well. In terms of the EBITDA for the quarter was INR 727 crores, which was down by 18%, primarily due to lower short-term sales. And for the nine months, the EBITDA is up by 5% at INR 2,936 crores. The cash profit during the quarter was INR 489 crores, which is a cash return on adjusted networth of 20%, which we have been retaining.

Our receivable trajectory is robust. It is down by 8% at 69 days. Our projects are progressing very well and which will be commissioned on schedule both for hydro as well as wind projects. We have also received LoA for our SECI contract for battery storage project which we will be building in next 18 to 21 months' timeframe, and which will be commissioned by October 2024. That's all from my side. With this, I open the forum for questions and answers. Thank you.

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

Rahul Modi: Sir, just a couple of questions I had. First was, with regards to some economics, if you could help us with the BESS projects that we've won -- in terms of what would be the storage tariff, the cost and how will the entire economics work. That is first. Secondly, there is some progress on how over the next two, three years, you mentioned that the Ind-Barath project would get commissioned over the next 24 months. So some details on that as to how do you see it scaling up and would you prefer because it's a low-cost project as of now. So would you prefer to sell it on merchant or what would be the strategy like?

Management: So this is the project, which we are selling at a particular lease rent kind of a construct where in 60% of the capacity is being sold for 12 years at a INR 10,85,000 lakhs per megawatt per month. And that's how it will be construed and after 12 years, the project will be transfer back to SECI. But 40% capacity is belonging to us, which we are looking to contract with other DISCOMS as well as supplying these services into the ancillary market. There is a new ancillary market and a policy framework, which has been opened up. And where we see a better potential to earn better returns as compared to what we are getting from SECI and that's how the project has been conceptualized.

In terms of the returns, we can guide at this point of time that we will be getting close to mid-teens or a little higher returns than that, what we normally get in terms of any generation project. And since we are having a number of levers available in front of us at this point of time. So this is what we would like to give you the guidance. But as the projects get commissioned and then other things and operating numbers starts kicking in, then we can see if there are some positive surprises. But in this case, we will be getting 15% to 16% kind of an equity IRR on the project.

Rahul Modi: Sir, just one follow-up on this. So basically, sir, the DISCOM will give you the grid power and during their peak hours, we will supply it back to this after charging or charging?

Prashant Jain: As far as I am concerned, I'm supposed to make it available. The storage capacity should be made available, whether they want to use in one cycle, they want to use two cycles, which DISCOM will contract the capacity with SECI, we are not aware about anything at this point of time. So how it is going to work is depending upon the DISCOM requirement. So we make the system available. They can give me the power in the daytime and take it in the night time. They can give me the power in the night time then take in the time. It depends on them.

Rahul Modi: And sir, any indicative tariff just to understand in such projects, what is the tariff which is coming out to be?

Prashant Jain: So it is, again, depends on the business case and business model. The tariff will be different if the one cycle is used, if tariff will be just half of it, if it is the two cycles which is used, tariff will be 1/3 if the three cycles are used. So I hope you understand what I'm trying to explain to you. It's a two-hour storage system. If you can use up to eight, 10 cycles also depends up to you. So it's very difficult to talk about at this point of time that what is it, it will translate into the storage cost for the end user. So it can fluctuate on a business case basis.

Rahul Modi: And two more questions, which I had. So one on the strategy and progress, how do you see it going through over the next 24 months of Ind-Barath because it's a pit-head plant? And secondly, sir, how do you see the spread between the coal prices on imported basis and the merchant panning out for us and overall market over the next six to 12 months?

Prashant Jain: So merchant tariffs are strengthening, and they are now ruling in the range of now INR 6 to INR 6.5 on a daily basis. And fuel prices are moderating. So that's the situation. And you know the thermal coal is directly linked with the natural gas at this point of time because the natural gas prices natural gas demand has been migrated to the thermal coal in Europe. And because of which thermal coal prices have been elevated since the Ukraine war came on the front.

And now the natural gas prices have moderated and they are back to the pre-war level, and that is what is also reflecting in the thermal coal prices. Now they are not as such pre-war level, but yes, they are very close to that number. And if the natural gas prices continue to slide, and then they we go up to \$3, then I am quite confident in some point of time, the thermal prices, the coal prices can also go to \$100. So that's the kind of a situation.

And merchant power prices are very tough to forecast. But what I can see at this point of time that the power demand is very robust throughout the year and then we are seeing substantial uptake in terms of the power demand and that is what is reflecting in terms of the higher capacity utilization as well as the higher merchant tariffs. So the spreads are better and we are seeing a higher merchant volume in the month of January, what we saw last January. And so I am seeing that there will be a good business case for the merchant power producer in next couple of months.

Rahul Modi: Right sir and just last, some comments on the Ind-Barath acquisition. How do you see the progress?

Prashant Jain: Ind-Barath acquisition now, the main focus is to set the plant site and commission both the units. We have a lot of options and opportunities available in front of us. One option is that the vertical integration for poly-silicon manufacturing, which we have been contemplating and evaluating.

Second option is also to look at certain captive requirements for the group for thermal power for our Eastern India requirements. The third option is also the PPAs, which a lot of DISCOMs want to do for the thermal power, where there are various bids, which have already been invited by the DISCOMs. So we are evaluating each and every option. And then accordingly, we will be taking a call in the due course while this capacity is commissioned, which is a win-win for all the stakeholders.

Moderator: The next question is from the line of Atul Tiwari from Citi.

Atul Tiwari: Sir, for this battery storage system, how much is the capex for this 500 megawatt capacity?

Prashant Jain: So we will be disclosing, we will let you know, we are now firming-up couple of orders. And so in the Q4 results, we will inform you the total capital expenditure.

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

Sumit Kishore: My question is related to the acquisition of Mytrah RE assets. On the last call, you had mentioned that you expected this to be completed or concluded before end of Q3 and the lock box stage for the deal, I believe is 1st April 2022. So what is the present status now?

Prashant Jain: So I agree that we are expecting but that there are 17 lenders and most of them are from the public sector and then sometimes few things happen in terms of the lender NOC beyond our control. But those things are -- most of the things are settled out. There are 17 lenders out of 17 lenders, 15 NOCs have come and then two are in pipeline, which are expected anytime soon. Anytime soon means within days not in weeks. And that's the only thing, which is pending and the moment it happens, and we will be in a position to complete the deal. And as you know, that our balance sheet comes to us from 1st of April 2022 itself. However, the consolidation will take place on the date of closing.

Sumit Kishore: The P&L will not get consolidated from 1st April 2022?

Prashant Jain: No, that will be the -- whatever the adjustment will be done in the net worth and gross blocks accordingly, the consolidation will happen from the date of acquisition.

Sumit Kishore: And is there any update that you had from the last call on your pumped storage hydro initiatives?

Prashant Jain: So those are moving fine right now. I must tell you that it requires a detailed project report is to be prepared, then based on that report, they need to be approved by the CEA. So and also there are public hearing is to take environment clearance. There has to be a complete -- a detailed engineering has to be done. So all those things are going on in all the projects. And as we have also mentioned in our presentation that the first project for our captive requirement at Vijayanagar, we will start the construction in the current calendar year. So there we have already moved to very advanced in terms of all kind of approvals. And we have already floated tenders and other things. So at some point of time, during the calendar year, we will be -- once we firm up the things, we will be going to the Board and then start the construction immediately.

However, before we are going to the Board, we are doing all kind of a preparatory exercise. And this is what is going on in all the projects in parallel whatever we have disclosed to the market for 7.6 gigawatt, which is equivalent to 50 gigawatt hour of the project. So everywhere things are progressing well. But since all these are a Greenfield projects, all these activities are going on in parallel and year-on year we will see that the different projects will be going into the construction mode.

Sumit Kishore: Just finally, could you also tell us what is the status of the INR 195 billion PLI of solar manufacturing, how close are we to the bidding stage and the final decision will be taken?

Prashant Jain: We are same as anybody else. We are working with the industry and then Government of India and even when anything is on the -- in the final stage, we will be looking to participate into it and see that whether we are competitive to get something in that or not.

Moderator: We will take the next question from the line of Abhineet Anand.

Abhineet Anand: Yes, sir, my question is on the wind side. The government has set up a target, which from 40 odd gigawatt that we presently are to around 140 by 2030. Solar has fairly done better as we have all seen in the last few years. I mean, how realistic are these numbers, first? And given that your success rates in winds are better off. So how do you feel that over the next few years, how these capacities can get ramped up?

Prashant Jain: So wind projects are difficult to execute because of the nature of the project because they are having spread over kilometers and kilometers for again is small project 300 megawatts. And that poses the lot of right-of-way and land acquisition challenges and approach issues as compared to the solar. So that is one issue. Second issue is that the tariff, which comes out with the wind project is much, much more as compared to the solar project because of the wind technology is there, and that's where more and more challenges come in terms of executing the PPA at those tariff and executing the project on ground.

So government is mindful about this challenge. But however, both needs to be seen differently because of -- only with the solar you cannot have a grid stability as well as the profile of the renewable energy cannot be maintained. So wind is also required. Hydro is also required. So there has to be a blend, which is required for the country as a whole and similarly, thermal is also required. So that's the step in that direction is first is that reverse bidding has been now contemplated that will be stopped and it will be a simple in line competitive bidding.

And we hope to see if that brings a little discipline into the project developers and then some prudence comes in terms of the tariff and then it may become little attractive to get a better investment in the wind sector. Execution challenges will remain, and which needs to be seen that how much capacity can be added up on a yearly basis. So, number of things are achievable, but timeline could be discussed at take a couple of years more, but the numbers are achievable.

Abhineet Anand: And just on this I mean, the suppliers which used to be earlier, I think, because there's a whole whether it's Suzlon or Gamesa and some of the other players, India has been adding like 1 gigawatt, 2 gigawatt, something like 2 gigawatt or 3 gigawatt and do we have enough decent suppliers to go to a 7 gigawatt, 8 gigawatt or whatever 5 gigawatt type of market do you feel?

Prashant Jain: Yes. Supplier is available because that's not at all constraint. The biggest deterrent was the tariff. So at the right tariff, enough capital and enough equipment's are available. However, the execution challenges will be still there which can be regulated very well.

Moderator: The next question is from the Dhruv Muchhal from HDFC Mutual Fund.

Dhruv Muchhal: Sir, just wanted to check on the SECI battery project. The LoA is received. So do we still have to wait for the PPA before we start constructing or this is the final go ahead? We can now I mean, there is full surety of off take now?

Prashant Jain: Yes, yes. So basically, the timeline starts for PPA to be signed. That's why in the previous question, I have not answered the capital expenditure numbers. That's where we are expecting all these things will be completed by before our Q4 results and then we will be placing the order accordingly. However, on our side, we are all set and ready in terms of whether it is financing or in terms of other things.

Dhruv Muchhal: So the final thing is just we are awaiting the PPA and once that is done and the 18 to 24 months start from there?

Prashant Jain: Yes. Then 18 months starts from there.

Moderator: The next question is from the line of Atul Tiwari from Citi.

Atul Tiwari: Sir, my question is on this 225 megawatt solar project, how much is the gross block now that the project has been finally commissioned. So what is the number? Would you be able to share that?

Pritesh Vinay: Yes. It's close to INR 1,100 and just over INR 1,100 crores actually, yes.

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

Bikash Chowdhury: Thank you very much. Thank you Abhineet for the call. Have a nice evening.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.