“JSW Energy Limited Q1 FY25 Earnings Conference Call”

July 19, 2024

MANAGEMENT: **MR. SHARAD MAHENDRA – JOINT MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**

MR. PRITESH VINAY – DIRECTOR (FINANCE) AND CHIEF FINANCIAL OFFICER

MR. BIKASH CHOWDHURY – HEAD, INVESTOR RELATIONS AND TREASURY

MODERATOR: **MR. ABHISHEK NIGAM – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the JSW Energy Q1 FY25 Earnings Conference Call. 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Nigam from Motilal Oswal. Thank you, and over to you, sir.

Abhishek Nigam: Thank you, Sagar. Good evening, everybody. On behalf of Motilal Oswal Financial Services, I welcome you all to the conference call of JSW Energy to discuss the first quarter FY25 results.

We have with us the leadership team from the company, including Mr. Sharad Mahendra, Joint MD and CEO; Mr. Pritesh Vinay, Director Finance and CFO; and Mr. Bikash Chowdhury, Head of Investor Relations and Treasury.

And now without any further delay, I will hand over the call to Mr. Mahendra for opening remarks. Over to you, sir.

Sharad Mahendra: Thank you. Good evening, everyone. Thank you for joining today's call. The past quarter has been exceptional for the power sector and especially for JSW Energy. The sector dynamics are evolving fast, presenting both new opportunities and challenges. As we know that with our nation's rapid growth, the GDP is estimated to have increased by 8.2% in FY24, driven by robust manufacturing and industrial activities. Notably, India's manufacturing sector grew by 9.9% in FY24, highlighting the critical role of the power sector in supporting increased economic activities.

Before we dive into our quarterly performance, I would like to provide an overview of the current power demand landscape. The power demand for the country grew at an impressive rate of 7.5% in fiscal 2024 on the back of resilient economic activities in the country. In this quarter, we have seen acceleration in the power demand growth with a year-on-year increase of a strong 11% even on a higher base of last year. The quarter also witnessed the record peak demand of 250 GW on 30th of May this year. In line with the power demand growth, the country's generation increased 11% year-on-year.

All India thermal PLF also have improved to 76.4% in the quarter as compared to 70% in the corresponding quarter last year. As the demand growth continues, I believe the impetus is more on capacity additions, delivering sustainable and reliable power.

Talking about the power capacity in the country, the total installed capacity has reached 446 GW. In this quarter, the net capacity addition stands at 4.2 GW post retiral of 200 MW of thermal capacity. This is compared to 5.8 GW of net capacity addition in Q1 FY24. Renewable energy capacity addition in the quarter has been 4.4 GW. Solar dominated this capacity addition of 3.7 GW, while wind capacity addition was close to 800 MW during the quarter.

It is expected that India will add 30 to 35 GW of RE capacity in the current year and is targeting approximately 15 GW of thermal capacity additions in the current year. With the nation aiming for annual RE bids of 50 GW, bidding activity has surged significantly as observed in the last fiscal.

Notably, the total installed capacity additions in FY24 reached 26 GW of which 18.5 GW was RE capacity as compared to the target 50 GW per annum. This indicates a substantial increase in growth opportunities. The Government of India has set a trajectory to increase renewable energy consumption via RPO obligation from current level of 22%, this is set to increase to 30% in FY25 and 43% by 2030.

The current share of RE in the grid is 13% of the total power generation in energy terms. Taking both into account, there is an increasing need of RE generation to be complemented with storage. This is getting reflected as now we are seeing incremental bids for hybrid power and also the FDRE solutions.

Unlike plain vanilla RE regeneration, FDRE and hybrid projects offer a comprehensive solution tailored to the needs of DISCOMs or stakes. Therefore, we are witnessing 2 things in the biddings: one, the quantum of auction has increased and is higher than 50 GW per annum; and two, the urgent requirement of bespoke solutions. This we see as a huge opportunity for us.

Now coming to the merchant markets, we have seen a strong demand growth. This is owing to hot weather conditions, which led to unprecedented increase in the country's energy consumption. Despite the surge in merchant volumes by approximately 17% year-on-year, the average merchant tariffs experienced a slight increase year-on-year, which indicates a strong demand environment. The day ahead market prices in quarter 1 of current fiscal stands at ₹5.27 as compared to ₹5.17 in last year quarter 1.

The coal prices witnessed year-on-year fall while strengthening on a sequential basis, if we talk of a particular index like API 4, it has stood at $108 in quarter 1 of FY25 as compared to $116 last fiscal, a decline of 7%. As we speak, API 4 coal prices currently are ruling at around $105 per ton.

Now coming to JSW Energy's performance in the quarter gone by. We'd like to inform that we have added 291 MW of capacity in the quarter, which is entirely wind. Of this, 45 MW was through completion of an acquisition and balance 246 MW was new greenfield capacity, which is almost one third of the new wind capacity added by country in the in quarter 1 of current year.

When coming to our net generation, the generation during the quarter increased by 18% year-on-year to 7.9 billion units, driven by a 44% increase in the renewable energy generation and a strong thermal performance. Notably, our hydro generation surged by 61% year-on-year, which is the highest generation for the quarter 1 in last 5 years. This is primarily due to improved hydrology.

For the country, the hydro generation was largely flat in quarter 1 of FY25. However, the hydro plants in the Sutlej river basin, where our Karcham Wangtoo and Baspa plants are located, have registered an average of 38% year-on-year increase in the generation. The wind generation grew

by 40% year-on-year due to capacity additions and around 4 percentage points improvement in machine availability during this quarter.

Coming to thermal, the net generation increased by 4% year-on-year driven by higher generation at our Ratnagiri plant and also the contribution from our Utkal Unit-1 operations which performed well but were impacted by some teething issues during the quarter, which is a normal thing during the initial commissioning of the unit. But the unit has now stabilized from July onwards. For Unit-2 of Utkal, I am pleased to share that we have completed the steam blowing and the boiler light up activity. We expect synchronization of Unit-2 during the current quarter.

To tell you more on our under construction projects, we are making good progress on our SECI wind projects set for completion in the current fiscal. Total under construction wind capacity is 1.7 GW. For the group captive projects, we have installed 103 MW in quarter 1 out of the total 737 MW capacity which is under progress.

At our Kutehr project site, there was a severe landslide in Apr-24 which washed away the access roads, which impacted project activity. Work has now resumed after restoration of road infrastructure and we have completed boxing of Unit 1 out of the 3 units, and all 3 units are expected to be commissioned in the current year only. You can see the details of the under construction projects on Slide 11.

In the past 6 months, we have built a robust pipeline of projects with a cumulative capacity of 5.7 GW. With this, our total locked-in capacity is 15.5 GW. I am pleased to announce that we have already signed PPAs for 2 GW of these projects.

Additionally, we have received necessary board approvals and are very close to signing PPAs of 1.3 GW of RE projects, including storage for our JSW Group companies for captive use. This is part of 6.2 GW of MOU, which we have signed with our group JSW Group last year towards the capacity additions in the next few years. With this total pipeline capacity with PPA will become 3.3GW. The projects where we have signed PPAs are expected to be commissioned within the next 18 to 24 months. You can see the details of the pipeline projects on Slide 12.

As part of our company's energy products and service offerings, we are constructing Asia's largest battery energy storage system with 1 GWh capacity, which is tied up with SECI. PPA for 250 MW is signed and the other part should be signed very soon. As we have communicated earlier, this project is scheduled for commissioning before Jun-25.

Additionally, we are building a green hydrogen plant for producing green hydrogen for green steel making by our group company. Like we said earlier, it's a pilot project for us with a capacity of 3,800 tons per annum of green hydrogen and 30,000 tons per annum of green oxygen. This is the largest green hydrogen project in India, which is under construction. Construction of this project has commenced at our Vijayanagar site in Karnataka, and we will be commissioning this plant before Mar-25.

Moving to the financial performance of the company. During the quarter, we reported 80% year-on-year increase in profit after tax at ₹522 crores. This was on the back of a strong EBITDA growth of 21% year-on-year. We continue to maintain a healthy balance sheet and receivables.

Our net debt-to-EBITDA, excluding CWIP debt stands at 2.2x. It remains well below our guided range of sustainable normalized net debt to EBITDA of 3.5x to 4.0x. We are making significant progress towards our target of achieving a 10 GW capacity by the end of current financial year and well on track to achieve 20 GW capacity well before 2030.

With our strong foundation and fundamentals, I am confident that JSW Energy is well positioned to excel in the coming quarters and take advantage of the immense opportunities which has now come up with a changed landscape.

Thank you. And now I will hand over to Mr. Pritesh Vinay, who will provide more details on our financial performance.

Pritesh Vinay: Thank you, Sharad. A very good evening to all of you, and thank you for joining us on the First Quarter Results Earnings Call. Sharad has already covered most of the things, but maybe I'll just take a few minutes. If you look at EBITDA, the EBITDA for the quarter stood at about ₹1,580 crores. This was up 21% Y-o-Y. If you look at slide eight of the presentation that gives the EBITDA bridge, but essentially, the thermal side, we gained ₹90 crores additional EBITDA Y-o-Y. This was largely due to the incremental contribution from Unit-1 of Ind-Barath.

And on the renewables side, the EBITDA grew by over ₹110 crores Y-o-Y. With the addition of new organic RE capacities as well as the incremental EBITDA generation from hydro due to better hydrology, the other income was also up Y-o-Y due to treasury gains and some LPS payments that we received during the quarter.

Balance sheet, Sharad has already touched about, continues to be very healthy. If you look at slide number 10 of the presentation, which gives a net debt bridge. So sequentially, quarter-on-quarter, if you see the net debt has come down by about ₹3,300 crores. And a large part of it, this has to do with the additional liquidity with the ₹5,000 crores QIP capital raise that we did in the month of April. So, we ended the quarter with a cash balance of over ₹6,100 crores. The ratios continue to be healthy. If you look at slide number 13, the headline leverage ratio on a net debt to TTM EBITDA is about 3.8x. But if you look at the sustainable normalized net debt to EBITDA by stripping off the debt which is sitting on capital work-in-progress. The underlying net debt to EBITDA stands at 2.2x, which is pretty healthy.

The weighted average cost of debt moved up marginally quarter-on-quarter, and at the end of June stood at 8.75%. Receivable trends continue to be very healthy. And at the end of June in terms of days sales outstanding, the overall receivables stood at a very healthy 65 days. And we've seen continuous improvement across each of our businesses across locations.

Now with that, maybe I'll just stop here and we can open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Sumit Kishore from Axis Capital.

Sumit Kishore: My compliments on strong bottom-line performance as well as to build up in the pipeline. The first question is for the pipeline projects of 5.65 GW are the ones where PPA has not been -- I mean what is the general expectation by when do you expect to close PPA signing for these

projects? And realistically, in FY27, what portion of this capacity would get commissioned? That's my first question.

Sharad Mahendra: Okay. See, when like against the bids which we have won, we have signed PPAs for 2 GW and the rest all like the agencies who have conducted the bids are in touch with the buyers, different discoms, different states, which normally takes a due course of time. And very soon, we expect that these PPAs will get fructified and will be signed. Giving the exact time line may be a challenge, but we expect very soon these PPAs further will be signed. Normally, it takes anything between 30 to 70 days to complete this activity.

And by FY27, as I have said that whatever PPAs are signed, the completion from the PPA signing date is normally 18 to 24 months depending on when we sign the PPA based on that, those time lines, definitely will be met and the projects will be executed accordingly. This is over and above that. Whatever the captive requirements are there, keeping in mind whether it's solar or solar, the same time lines of 18 to 24 months, those capacities also will be added.

Sumit Kishore: And this would also include signing PPA with JSW Steel for the group captive capacity?

Sharad Mahendra: Yes, exactly. That will be over and above 2 GW, which is 1.3 GW, expected to be signed very soon.

Sumit Kishore: My second question is that with the battery prices evolving rapidly and we have seen stand-alone BESS GUVNL bid discovery. So how do you foresee the load following FDRE rates settling down in coming quarters? We have seen the SECI II FDRE bid that JSW had done a portion. Yesterday or day before, we saw that solar plus battery storage. Could you please give a comment on the direction.

Sharad Mahendra: See, exact number, that is -- definitely depends on what kind of requirement. As you said day before yesterday, was a different solution, which was there, which is a mix of solar plus and battery energy storage and taking care of only discharge during the evening peak, so it depends on how the project is designed, what is the requirement and how much of energy is to be met it depends so giving the exact tariff for anything. Like someone wants a 80% power, 80% in terms of energy terms will have a different product design.

But yes, as you have been seeing, it ranges from like day before yesterday with a single discharge in solar at about maybe 3.42 to whatever the tariff which has been discovered is a reasonable tariff. And just I would like to reiterate here for us, the tariff is our benchmark returns, whenever, wherever we are getting and we are meeting our benchmark returns. That is where only the tariffs we accept and go for winning the bid, not just for the sake of winning the bid.

So we are very, very sure about what is our benchmark returns that we are getting or not. So tariffs, whatever being discovered and depending on what kind of product mix which is required in terms of the storage and solar or whether it is FDRE, which is solar, wind and storage. So, it depends on the product design rather than giving a one straight number, which is possible in the plain vanilla solar or plain vanilla wind, here, it depends on what is the product which is required.

Sumit Kishore: Just one follow-up on this. Let us say that FDRE II rate of 5.59 or thereabouts, which was discovered in March, is the same going to happen today? Have battery prices come down from there also? Or has the equipment price corrected so that you discover a price which will be sub ₹5 for the same tender 3, 4 months down the line?

Sharad Mahendra: Yes. Very good question. We are seeing the moderation in the battery prices, the cell prices. I think the safe solution, we feel that can be provided in the range of maybe anything between ₹4.6 to ₹4.8 also.

Pritesh Vinay: So, if I can also comment here, the challenge is kind of crystal balling something like this and a very important element that we have so far not touched upon is that a relative competitive intensity and what underlying returns is anybody trying to solve for. So, what is the effective project cost based on the negotiation capability that any individual developer can have? And what are the hurdle rates of returns that one is solving for?

So, when you do an overlay of this, then it becomes difficult to kind of extrapolate where do you think something like this can normalize because at different points of time in the market for strategic reasons, different people could be driven by various motivations, right? So there could be somebody who's trying to have a tick in the box for multiple strategies for some other reasons. There could be somebody who's building a pipeline for a potential capital raise. So it becomes challenging in that way to extrapolate, right?

Sumit Kishore: Yes. Just last question. Presentation mentioned that in less than a year now we will have your 1 GWh BESS project as well as the green hydrogen project operational. Could you give some color on where you have ordered the battery, the electrolyzers, if something can be shared for better understanding and the project cost.

Sharad Mahendra: See Sumit, when we say that when we design this and whatever it is that our project cost and other things are secondary for us. Primary thing is to ensure that I'm getting my desired returns, which is a mid-teens. In this case, yes, with the moderation in the prices of the equipment, we are quite confident that it will be maybe high-teen returns, which we are going to get on these projects. So rather than what is the project cost, it is important that what the returns I'm getting and I'm absolutely confident that we will be getting the returns higher than what we expected when we planned these projects.

Moderator: The next question is from the line of Mohit Kumar from ICICI Securities.

Mohit Kumar: Congratulations on a good set of numbers. My first question is just clarification. Are you running the Ratnagiri Unit-1 on a case on basis. Is that right?

Pritesh Vinay: Yes, yes. That's right, Mohit.

Mohit Kumar: Second question is we understand the number of PPAs as reported by a few state DISCOM for the coal and power plants. Do you think that we're going to start/commence some work on a new power plant or you can tie up the Ind-Barath in long-term PPA?

Sharad Mahendra: See, Mohit, definitely, now states have again started looking for the PPAs. For Ind-Barath, today, the advantage with us being close to almost a pit-based plant and the sufficient coal availability, which is there. And overall, our fuel cost is very competitive and low. We see that right now, the opportunity in merchant market is significant, which may not be for a long term, but we see next 1 to 3 years till the time sufficient thermal capacities get added. And, the way we have demand growth is much more than what everyone has been anticipating, we see this as a good opportunity for us in near term.

So right now, we will be continuing in the merchant market. But yes, the landscape and what the Government of India also has announced to meet the growing demand the new capacity additions in thermal, which is in excess of 80 GW, which is required by 2032. As and when the opportunity comes and the state comes, we will be definitely looking towards this opportunity going forward also for adding further capacities in thermal space.

Mohit Kumar: Anything in near term or medium term, do you think the next 1 year, you can start a new power plant or commencement of new construction?

Sharad Mahendra: No, that will not be. It takes its own due course of time in setting up a new thermal power plant, that time definitely will be there, but that we will be going for any significant investment based on if we have the PPAs in hand.

Mohit Kumar: Understood. My last question, sir, what is the portfolio of RE. Where we are L1 and where the PPA and LoA has not being issued?

Pritesh Vinay: So Mohit, if you can check slide number 12 of the presentation that should help you.

Moderator: The next question is from the line of Anuj Upadhyay from Investec Capital.

Anuj Upadhyay: So my question belongs to the underperformance across the Vijayanagar station and also the low PLF across the Barmer, which still hangs around in the range of 66%, 67% out year. Can you throw some light on reasoning behind the same?

Pritesh Vinay: So Anuj, we also earlier tried to explain that if you look at Vijayanagar for the station out of 860 MW, we have only about 310-odd MW, which is tied under PPAs, right? So the balance is open for sale in the merchant markets, and that is an opportunistic trading that has to be done depending on where the dark spreads are, right?

And Vijayanagar plant because it is inland, the fuel cost as compared to Ratnagiri is going to be higher because of the inland transportation costs. So from time to time, based on unit economics, the team will go ahead and book for trades in the short-term market. And hence, you're always going to see variability in the PLF for the variability of the Vijayanagar station, right?

As far as the Barmer plant is concerned, in the first quarter, we had some planned outages, how some of the units, all of which have got completed. So if you look at the CEA data for the current one, for example, is running at a very high PLF. So the PLF for the first quarter is lower due to planned outages.

Anuj Upadhyay: Okay. So there's a planned outages. So would there be any under recovery for Q1, which was booked for Barmer?

Pritesh Vinay: So the recovery or under recovery is actually is estimated on an annual basis. So yes, for the quarter, there's going to be another recovery, but if we meet up the deemed PLF numbers during the course of the year, there will be makeup for that towards the back end of the year, that's how it is done.

Anuj Upadhyay: Fair enough. And lastly, on the Vijayanagar again, does -- I mean like initially, we had thought that project may operate under Section 11. But again, as you mentioned about it depends upon the unit economics and the opportunity. So Section 11 kind of a thing.

Sharad Mahendra: You're right. Section 11 was there till only, I think, end of May. So April and May there was Section 11. But I think it's not on Section 11 anymore.

Moderator: The next question is from the line of Ketan Jain from Avendus Spark.

Ketan Jain: Sir, my first question is a follow-up on the Section 11 thing. So do you expect Section 11 to be extended by the government?

Sharad Mahendra: No. So the thing is that it is first and foremost very difficult to forecast or estimate government actions going forward because putting ourselves in the government shoes, I believe the underlying drivers for that decision are going to be the perceived demand supply gap, right? So while on the one hand, demand growth has been pretty strong, but we are off the peak season demand of summers and monsoons are in and you had additional sources of supply like hydro, the Wind season is about to kick in.

So I'd be surprised if anybody is estimating a demand-supply mismatch in the next couple of months. But who knows for the second half of the year post monsoon, you will say, October to March period, which is a peak demand period based on the estimated load curve and the supply from various sources at the right time, the government might take that call. But I think there is typically no heads up for these kind of situations.

Ketan Jain: Understood. My next question is what type of realizations and input costs are you seeing Ind-Barath and Vijayanagar plants?

Pritesh Vinay: So what will probably help you understand is that we will not be disclosing station by unit cost details, but it's also important to help you think about these things, right? So for example, let's take one by one, let's take Ind-Barath, because we don't have a PPA, so there is no FFA, so the only source of coal is through the auction route, right? Now it is either the spot e-auctions or through the shakti auction schemes under the Ministry of Power. And there we, from time to time, participate and we've guided in the past that we have looked at average cost of between say ₹2.75 to ₹3.0 on an average for Ind-Barath.

On the imported coal-based stations we source everything from the seaborne market. So you'll see how the API 4 indices are moving and then you will be able to make a good estimate for both Ratnagiri. I also said in a response to an earlier question that Vijayanagar is inland, so

there's an additional Indian transportation cost. So there will be a higher spread between Ratnagiri to Vijayanagar.

Ketan Jain: Understood. Just one last question, sir, on the merchant capacity. Sir, is the demand more in the merchant capacity in the non-solar or in solar? Like what type of PLF does say maybe Ind-Barath operate in a non-solar hour?

Sharad Mahendra: See, Ind-Barath I'd just like to tell that definitely, as we are seeing that the demand during the daytime is definitely very good, but it is due to a large availability of solar during the day time, the thermal power is not there. But in our case, if you see how we have moved is that we have tied up our capacities on an RTC basis with various DISCOMS in short term, maybe 3 months period, or 4 months period. So we are insulated from what is happening during the daytime at Ind-Barath, and we have tied up our power on an RTC basis for a 3-month period. That is how we have moved.

Moderator: The next question is from the line of Vishal Periwal from Antique Limited.

Vishal Periwal: Sir, on your project capacity addition, the slide number 12, which do give some brief on it. In terms of FY26 addition, is it fair to say the 2.6 GW PPA, which is already signed, that will at least see a commissioning?

Sharad Mahendra: Yes. all solar projects which are there, wherein the time lines are 18 to 24 months that I think within the time lines, we will be adding that, yes. But yes, as you have said, we are sure that this capacity addition will be there during that time period.

Vishal Periwal: Okay. Okay. And then in terms of our addition, I mean, from FY25 to FY30 I mean like in FY30, taking from 10 GW to 20 GW, is there any midterm target also for FY27 or FY28 for us as of now?

Sharad Mahendra: No. See, Vishal, as I told in my statement also, that we are confident that we are definitely about 1.5 years back when we said that 10 GW by FY25 which was the Phase I and 20 GW by FY30. But with the changed landscape and the opportunities which have come up and the amount of pipeline which we have in hand now, we are confident that this 20 GW will be achieved significantly earlier than FY30, and we are evaluating that what will be the number. That is a work in progress with the opportunities and our returns what we have benchmarked are protected and the opportunities which are going to be there in the bidding space. So FY30, there will be a definitely different number. But the 20 GW will be happening significantly earlier, that I can at least maintain.

Vishal Periwal: Sure, sir. Sure, sure. And one last thing from my side. In terms of our capex, we did mention in the previous call, ₹15,000 odd crores we'll be doing it in FY25. Any number that we are targeting for FY26 or it's still open?

Pritesh Vinay: It's pretty premature now, Vishal, because one quarter of the new year has finished. And you are aware that there are more and more bids that are lined up for the remaining period. So I think for FY26, it will be a bit premature, maybe towards the end of this year will be the right time for this guidance falling in. Can we take the last question, please, Moderator?

Moderator: The follow-up question is from the line of Ketan Jain from Avendus Spark.

Ketan Jain: Sir, my last question is, sir, are we taking or are we expected to face any transmission evacuation capacity problem in the under-construction wind projects?

Sharad Mahendra: No, under construction wind projects or all capacities in terms of transmission are tied up with all projects which are under construction.

Ketan Jain: Understood. And also are you seeing any transmission supply chain tightness in the substations or transformers?

Sharad Mahendra: No. See, definitely, everything has been lined up. Of course, with the kind of bidding environment with the increased quantum of bidding. Going forward, definitely, this is going to be one area, but we have already lined up knowing that what is going to be my FY25, FY26, FY27, we are already taking care of the entire supply chain, not only the transformers, but in terms of execution or any other aspects in terms of completing the project well in time.

Moderator: There are no further questions, I would now like to hand the conference over to the management for closing comments.

Sharad Mahendra: Okay. Thank you, everyone, for joining today's call. And as I have told you, I've covered most of the points. But yes, my IR team is there in case there is any other follow-up questions later or any other information required, we request you to kindly write to our IR team, we will definitely be responding on that. Thank you very much, once again.

Pritesh Vinay: Thank you very much.

Moderator: Thank you. On behalf of JSW Energy, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.