



## Rating Rationale

28 April 2022

### JSW Energy Limited

**Brickwork Ratings reaffirms the ratings for the Commercial Paper issue upto Rs. 950.00 Crores and withdraws the ratings of the proposed Non-Convertible Debenture issue up to Rs.2000 Crs for JSW Energy Limited.**

#### Particulars:

Instrument	Tenor	Previous Amount (Rs. Crs)	Present Amount (Rs. Crs)	Previous Rating (August-2020)	Present Rating*
<b>Proposed Non-Convertible Debenture (NCD)**</b>	Long Term	2000.00	-	BWR AA- (Positive)	<b>Withdrawn</b>
<b>Commercial Paper (CP)#</b>	Up to 365 Days	950.00	<b>950.00</b>	BWR A1+	<b>BWR A1+ Reaffirmed</b>
<b>Total</b>		2950.00	<b>950.00</b>	<b>INR Nine Hundred and Fifty Crores Only</b>	

#CP O/s was Rs. 500 Crs as of 31 March 2022

\*Please refer to the BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings.

\*\*Proposed NCDs not raised till date

Brickwork Ratings (BWR) has principally relied on audited financial results up to FY21, 9MFY22 financials, projected financials and publicly available information, and information/clarification provided by JSW Energy Limited (JSWEL or the company).

#### Rating Action:

1. BWR has reaffirmed the short-term rating at BWR A1+ for the commercial paper issue of Rs. 950 Crs.
2. BWR withdraws the long-term rating at BWR AA- (Positive) for the proposed non-convertible debenture (NCD) issue of Rs. 2000 Crs.

#### Rationale:

The ratings continue to factor in the strength of the promoter group, company's long experience in the power sector, long-term power purchase agreements (PPAs) for ~84% of the company's consolidated total power generation capacity for the existing business profile and significant deleveraging over the past few years.

The ratings also factor in JSWEL's foray into the renewable energy (RE) space, wherein the company plans to increase its installed capacity from ~4.6 GW (~70% thermal and 30% hydro and RE) to 10.00 GW (30%-40% thermal and 60%-70% hydro and RE) over the medium term. This



growth is expected to be organic in nature with a capex cycle of 12-42 months, depending on the nature and size of the project. JSWEL has identified certain projects for expansion, with a capacity of ~2.5 GW expected to be implemented over the next 3-4 years. The estimated project cost for the ~2.5 GW capacity is ~Rs. 16,500 Crs, and the same is expected to be funded with debt of ~Rs. 12,200 Crs, with the balance with equity which is expected to be funded largely through internal accruals.

The rating also factors in the improvement in gross debt/Ebitda and net debt/Ebitda ratios in FY21/9MFY22, and the likely sustenance of the same, and profitability, as well as the receivables level, post factoring in the planned capex and expected improvement in the profile of the counterparties. Adherence to implementation timelines within budgeted costs for the proposed expansion and further tying-up of generation with long term PPAs would be a key monitorable.

The rating is constrained by untied capacity of 16% and the inherent risks of project execution given the company's foray in the RE space, which is expected to increase debt levels in the medium-term, resulting in a moderation in leverage ratios. The susceptibility of the profitability of the company to imported coal prices and foreign exchange fluctuations affecting the overall fuel cost remains a concern to the extent of open capacity. The impact of the recent notice received for closure of the lignite mines which are supplying fuel to the Barmer plant on the operations of the plant will also be a rating monitorable.

### **Description of Key Rating Drivers:**

#### **Credit Strengths:-**

##### **Promoter group and experience in power sector:**

JSWEL was incorporated in 1994 and is the power utility arm of JSW Group. The promoter and promoter group companies had a total of 74.66% shareholding in the company at the end of March 2022. JSW Group is a multi-billion-dollar conglomerate with a presence in core economic sectors such as steel, energy, infrastructure and cement. The group has a presence in India, the US, South America and Africa.

JSWEL, on a standalone basis, operates two thermal power plants, one in Ratnagiri, Maharashtra, with a 1200-MW capacity (4 units of 300 MW each) and another one in Vijayanagar, Karnataka, with a 860-MW capacity. These two plants currently run on imported coal, largely sourced from Indonesia and South Africa. Its wholly owned subsidiary JSW Energy (Barmer) Limited operates a 1080 MW thermal power plant with lignite as the captive fuel source. Another wholly owned subsidiary JSW Hydro Energy Limited operates two hydro power plants, one with a 300 MW capacity in Baspa and another with a 1091 MW capacity at Karcham Wangtoo. In November 2021, the company's board approved re-organisation of the company's green (renewable energy including hydro) and grey businesses (thermal energy). The renewable energy including hydro business will be housed under 'JSW Neo Energy Ltd', a wholly owned subsidiary of JSWEL and the thermal business will remain under JSWEL and other existing subsidiaries. On a consolidated basis, JSWEL had a total capacity of 4559 MW as of 31 March 2022. Currently, JSWEL's ~2.5 GW capacity is under construction.



**Long-term PPA for ~84% of existing capacity:**

The Barmer plant has a long-term PPA for its entire capacity of 1080 MW with three Rajasthan DISCOMs. The Baspa hydro power plant has a long-term PPA with the Himachal Pradesh State Electricity Board (HPSEB) for its entire capacity of 300 MW, net of free power of 12% to be supplied to the HPSEB. The hydro plant at Karcham is also tied-up under a long-term PPA for 1000 MW capacity, net of free power of 12% to be supplied to the HPSEB with PTC India Ltd, which in turn sells power to UP, Rajasthan, Haryana and Punjab DISCOMs. Its Vijayanagar and Ratnagiri thermal power plants are only partially tied-up under long-term PPAs. The company also has one thermal and two solar plants in Nandyal and Salboni, with a total capacity of 27 MW, and the PPA is tied-up with group companies. As of 31 March 2022, ~84% of the company's consolidated capacity was tied-up under long-term PPAs. A substantial proportion of the upcoming capacity is tied-up with stronger counterparties, such as Solar Energy Corporation of India (SECI).

**Improvement in the financial risk profile:**

On a consolidated basis, the company had total debt of Rs. 8370.58 Crs in March 2021 and a tangible net worth of Rs. 13036.84 Crs, resulting in a D/E ratio of 0.64 times (FY20:0.97 times and FY19: 1.03 times). Gross debt/Ebitda for JSWEL on a consolidated basis in FY21 stood at 2.56 times (FY20: 3.05 times). The company's ISCR and DSCR was 3.25 times and 1.18 times in FY21 compared to 2.81 times and 1.40 times in FY20. Significant deleveraging over the past few years has created sufficient headroom for the company to pursue new growth opportunities. While the coverage ratios are likely to sustain in FY22, the debt-led capex, owing to planned RE investments, is expected to result in the moderation of leverage ratios from the FY23 onwards and would be a key monitorable, going forward.

**Expected improvement in counterparty profile:**

The signing of PPAs of 1.26 GW with a stronger counterparty such as SECI is going to diversify and improve the overall Counterparty composition in JSWEL's consolidated portfolio. Policy measures such as a 'must run' status given to RE projects and mandatory renewable purchase obligations, coupled with the government's thrust on RE, is expected to augur well for the sector and enhance JSWEL's prospects, going forward.

**Credit Risks:-**

**Exposure to merchant tariff for remaining ~16% of total capacity:**

Although the company has reduced its un-tied capacity over the years, presently, 16% of the total consolidated capacity is on a merchant basis, thus impacting profitability, as has also happened in the past. The Ratnagiri plant's open capacity of 115 MW and Vijayanagar open capacity is 533 MW. The company plans to tie up the open capacity in the near future. For the Vijayanagar plant, the company is looking to tie-up the open capacity opportunistically via a thermal - renewable hybrid tender in the long term as and when the JSW group companies expand their capacities in Vijayanagar.

**Susceptibility of profitability/operations consequent to increase in imported coal prices and uncertainty with respect to fuel tie ups for its subsidiary:**

The company's Vijayanagar and Ratnagiri plants run on imported coal, largely that imported from South Africa and Indonesia, making the company's fuel cost susceptible to an increase in imported coal prices and forex fluctuations to the extent of the open capacity.



JSW Energy Limited (JSWEL) has stated in a recent press release that its 100% subsidiary JSW Energy (Barmer) Limited (JSWEBL), which operates a 1,080 MW power plant in Barmer (Rajasthan), has received a notice from its JV and lignite supplier, Barmer Lignite Mining Company Limited (BLMCL; 51% owned by Rajasthan State Mines and Minerals Limited (RSMML)) that BLMCL has been directed by RSMML to stop mining operations at the two lignite mines (Kapurdi and Jalipa) in Rajasthan within 15 days from the date of order received by the company on 4 April 2022. However, RSMML has been directed by the government of Rajasthan to ensure an uninterrupted lignite supply to the power plant.

BWR has taken a consolidated approach for the rating of JSWEL and its subsidiaries while assigning the ratings. As per discussion with JSWEL's management, it is understood that JSWEBL has submitted a writ petition in respect of the notice and also BLMCL is in discussions with RSMML to ensure that there is no impact on operations of the plant. Any further development and impact on the operations of the company will be monitored.

**Susceptibility to implementation risk owing to planned capex/expansion:**

BWR notes that JSWEL is exploring various opportunities in the renewable energy space and is expected to increase its installed capacity from ~4.6 GW to 10.00 GW over the medium term. JSWEL has identified certain projects for the expansion, with a capacity of ~2.5 GW expected to be implemented in a phased manner over the next 3-4 years. The following projects are part of the overall 2.5 GW expansion. JSWEL group companies won two competitive bidding for 810 MW and 450 MW wind power projects conducted by SECI. PPAs for 25 year tenure for both the projects are signed with a tariff of Rs. 2.99 per kWh for 810 MW and Rs. 2.78 per kWh for 450 MW with SECI which would have back-to-back power sale agreements with various Discoms. The projects are under implementation with commissioning dates ranging between Mar 2023 - July 2023. The Kutehr green field hydro power project in Himachal Pradesh (240 MW) is expected to be operational by October 2024; the PPA for this is signed with Haryana Discoms at a levelled tariff of Rs. 4.50 per kWh for a 35-year period.

Apart from the aforesaid, JSWEL is also implementing wind and solar projects with a capacity of 958 MW under the group captive model. PPA for the same is signed with JSW Steel Ltd for 25 years tenure. The timely implementation of these capacities within budgeted costs within envisaged timelines will be key monitorables.

**Analytical Approach:**

BWR has factored in the company's consolidated business and financial risk profile to arrive at the rating. Reference may be made to the Rating Criteria hyperlinked below.

**Rating Sensitivities:**

Going forward, the company's ability to maintain adequate liquidity, expected leverage levels and profitability would be key rating sensitivities.

**Positives:**

- Sustenance of operational and financial metrics as per BWR's estimates
- The timely implementation for the planned capex/expansion plan
- Long-term PPA tie-up for the remaining ~16% of the total operating capacity



**Negatives:**

- Any adverse implications onto the financial risk profile of JSWEL on account of the lower-than-expected operating performance/fuel tie ups leading to deterioration in financial ratios and/or in case of a sharp reversal in industry operating factors
- Any material delay in project implementation and /or debt tie-up/ equity infusion
- Any major debt-funded acquisition that weakens the company's financial risk profile

**Liquidity Position: Adequate**

On a consolidated basis, the company’s cash and cash equivalents position as of 31 December 2021 stood at Rs. 2,137 Crs. JSWEL holds ~7 Crs (% pledged was 0.0% as of March 2022) shares of JSW Steel Ltd worth ~Rs. 5000.00 Crs (as on market price dated 31 March 2022). The sanctioned fund-based working capital facility on a consolidated basis was Rs. 1167 Crs, and the utilization level was at Rs. 113 Crs as of 31 December 2021. Thus, the cash and cash equivalents and unutilised working capital facilities seem to be adequate for meeting the CP obligations which are falling due in the coming months.

**About the Company:**

Incorporated in 1994, JSW Energy Limited (JSWEL) is a part of the JSW group headed by Mr. Sajjan Jindal. The JSW group has a presence in various sectors, such as steel, power, cement and infrastructure. JSWEL is the holding company for the JSW group’s power business, with an operational capacity of 4559 MW (consolidated) as of 31 March 2022. The promoter and promoter group held a 74.66% stake in JSW Energy Limited, and the remaining 25.34% was held by the public as of March 2022. Details on the subsidiaries, associates and joint ventures of JSWEL as of 31 March 2021 are in Annexure I.

**Details of the outstanding CPs :**

The company has issued Rs. 500 Crs of CPs in four tranches having tenor varying from 80-91 days. The maturity of these CPs are in May 2022 and June 2022.

**Company’s Financial Performance<sup>s</sup> (Consolidated):**

Key Financial Parameters	Unit	FY20 (Audited)	FY21 (Audited)
Total Operating Income	Rs. Crs	8272.71	6922.20
PAT	Rs. Crs	1081.18	822.68
Total Debt	Rs. Crs	9867.02	8370.58
Tangible Networth	Rs. Crs	10154.71	13036.84
D/E	Times	0.97	0.64

<sup>s</sup>As per BWR calculations

For 9MFY22, on a consolidated basis, the company achieved total revenue of Rs. 5708.54 Crs, with a PAT of Rs. 866.04 Crs, against total revenue of Rs. 5352.58 Crs with a PAT of Rs. 717.93 Crs for 9MFY21.

**Rating History for the last three years (Including withdrawal and suspended):**

Sl. No.	Instrument /Facility	Current Rating (2022)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs. Crs)	Rating	2021	2020***	2019
1	Proposed Non-Convertible Debenture (NCD)**	Long Term	-	<b>Withdrawn</b>	BWR AA-(Positive) dated 6-April-2021	BWR AA-(Positive) dated 14-August-2020	-
2	Commercial Paper(CP)*	Up to 365 days	<b>950 .00</b>	<b>BWR A1+</b>	BWR A1+ dated 6-April-2021	BWR A1+ dated 30-March-2020  BWR A1+ dated 15-April-2020  BWR A1+ dated 14-August-2020	BWR A1+ dated 05-April-2019  BWR A1+ dated 19-November-2019
<b>Total</b>			<b>950.00</b>	<b>INR Nine Hundred &amp; Fifty Crores Only</b>			

\*CP O/s was Rs. 500 Crs as of 31-March-2022

\*\*Proposed NCD not raised till date

\*\*\*Credit update on 28-Feb-2020

**Status of non-cooperation with previous CRA (if applicable):** Not Applicable

**Any other information:** NIL

**COMPLEXITY LEVELS OF THE INSTRUMENTS:** Simple

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Commercial Papers](#)



**Annexure I:**

**The list of the subsidiaries, Associates and Joint ventures of JSW Energy Limited as of 31-3-2021 is as:**

<b>Sr. No.</b>	<b>Name of the company</b>	<b>(%) Shareholding of JSWEL either directly or through subsidiaries/associates</b>
1	JSW Energy (Barmer) Limited	100
2	JSW Hydro Energy Limited	100
3	JSW Power Trading Company Limited	100
4	Jaigad Power Transco Limited	74
5	JSW Energy (Raigarh) Limited	100
6	JSW Energy (Kutehr) Limited	100
7	JSW Future Energy Limited	100
8	JSW Electric Vehicles Private Limited	100
9	JSW Energy Natural Resources Mauritius Limited	100
10	JSW Energy Natural Resources South Africa (Pty) Limited	100
11	Royal Bafokeng Capital (Pty) Limited	100
12	Mainsail Trading 55(Pty) Limited	100
13	South African Coal Mining Holdings Limited	69.44
14	SACM (Breyten) Proprietary Limited	69.44
15	South African Coal Mining Operations Proprietary Limited	69.44
16	Umlabu Colliery Proprietary Limited	69.44
17	Toshiba JSW Power Systems Private Limited	5.30
18	Barmer Lignite Mining Company Limited	49.00
19	JSW Renewable Energy (Vijaynagar) Limited	100
20	JSW Renew Energy Limited	100
21	JSW Renewable Energy (Dolvi) Limited	100
22	JSW Renew Energy Two Limited	100



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