



Rating Rationale

JSW Energy Limited

06 April 2021

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

Particulars:

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

#CP O/s was Rs. 50 Crs as of 18 March 2021, *Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings.

**Proposed NCD not raised till date

Brickwork Ratings (BWR) has principally relied on audited financial results up to FY20, 9MFY21 financials, projected financials and publicly available information, and information/clarification provided by JSW Energy Limited (JSWEL or the company).

Rating Action: BWR has reaffirmed the long-term rating at BWR AA- (Positive) [to be read as BWR AA minus with a Positive outlook] for the proposed non-convertible debenture (NCD) issue of Rs. 2000 Crs and short-term rating at BWR A1+ for the commercial paper issue of Rs. 950 Crs.

Rationale:

The ratings continue to factor in the strength of the promoter group, company's long-term experience in the power sector, long-term power purchase agreements (PPAs) for ~82% 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 ~4.5 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, given that the capex cycle is 12-42 months, depending on the nature and size of the project. JSWEL has identified certain projects for expansion, with a



capacity of ~2.1 GW expected to be implemented over the next 3-5 years. The estimated project cost for the 2.1 GW capacity is ~Rs. 13,200 Crs, and the same is expected to be funded with debt of ~Rs. 9,500-9,600 Crs, with the balance by equity which is expected to be funded largely through internal accruals. Further details on the planned capex/expansion plan are covered under Key Rating Drivers.

The Positive outlook is on account of the improvement in gross debt/Ebitda and net debt/Ebitda ratios in FY20/9MFY21, and the likely sustenance of the same, and profitability, as well as the receivables level, post factoring in the planned capex. Adherence to implementation timelines within budgeted costs for the proposed expansion and tying-up of PPAs as per committed timelines would be a key monitorable.

The rating is constrained by un-tied PPAs of 18% (PY:19%) and the inherent risks of project execution (especially hydro), given the company's foray in the RE space, which is expected to spike debt levels in the medium-term, resulting in a moderation in leverage ratios. The susceptibility of the profitability to imported coal prices and foreign exchange fluctuations affecting the overall fuel cost remains a concern to the extent of open capacity. These risks are partly mitigated by the expected improvement in counterparty profiles and the fact that some thermal power projects are expected to be debt-free in the medium term.

With respect to the acquisition of Ind-Barath Energy (Utkal) Limited, approval by the National Company Law Tribunal was under process for the resolution plan submitted by the company during the review in August 2020. Subsequently, based on the press release by the company to the stock exchange in February 2021, the resolution plan has been terminated.

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 74.87% shareholding in the company at the end of December 2020. 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. On a consolidated basis, JSWEL had a total capacity of 4467 MW as of 12 March 2021. Currently, JSWEL's ~2.5 GW capacity is under construction/evaluation or has recently been awarded.



Long-term PPA for ~82% 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 its entire operative 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 27MW, and the PPA is tied-up with group companies. As of 12 March 2021, ~82% of the company's consolidated capacity was tied-up under long-term PPAs. A substantial proportion of the upcoming capacity is expected to be tied-up with stronger counterparties, including Solar Energy Corporation of India (SECI).

Financial risk profile:

On a consolidated basis, the company had total debt of Rs. 9840.48 Crs in March 2020 and a tangible net worth of Rs. 10154.71 Crs, resulting in a D/E ratio of 0.97 times (FY19:1.03 times and FY18: 1.25 times). Gross debt/Ebitda for JSWEL on a consolidated basis in FY20 stood at 3.05 times (FY19: 3.3 times). The company's ISCR and DSCR improved from 2.39 times and 1.35 times in FY19 to 2.81 times and 1.40 times, respectively, in FY20. Significant deleveraging over the past few years has created sufficient headroom for the company to pursue new growth opportunities; the leverage and coverage ratios are expected to sustain in FY21 and FY22. While the coverage ratios are likely to sustain in FY23, the debt-led capex, owing to planned RE investments, is expected to result in the moderation of leverage ratios in FY23 and would be a key monitorable, going forward.

Expected improvement in counterparty profile: While various state discoms accounted for 59% of revenue as of March 2020, the expected signing of PPAs with a stronger counterparty such as SECI is expected 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 ~18% of total capacity:

Although the company has reduced its un-tied capacity over the years, presently, 18% 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 ~212 MW is expected to be tied-up during FY22 once JSW Steel Ltd completes its expansion at Dolvi, resulting in 13% open capacity at the consolidated level by end-FY22. 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 to increase in imported coal prices and forex fluctuations:

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.

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 ~4.5 GW to 10.00 GW over the medium term. JSWEL has identified certain projects for the expansion, with a capacity of ~2.1 GW expected to be implemented in a phased manner over next 4 years. The following projects are part of the overall 2.1 GW expansion. JSWEL's wholly owned subsidiary JSW Future Energy Limited (JSWFEL) received a letter of award (LOA) from SECI in September 2020 for 810 MW capacity (wind project with the option of blending with solar up to 20% of the contracted capacity) at a flat tariff of Rs 3.00/unit. The PPA would be signed with SECI for 25 years, which would have back-to-back power sale agreements with various Discoms. The Kutehr green field hydro power project in Himachal Pradesh (240 MW) is expected to be operational by September 2024; the PPAs for this are to be signed with HPSEB for a 35-year period.

Apart from the aforesaid, JSWEL will also implement wind/solar projects with a capacity of ~1 GW under the group captive model. Additionally, JSWFEL has recently received an LOA for a total wind capacity of 450 MW from SECI. The timely implementation of these capacities within budgeted costs and timely tie-up of PPAs within envisaged timelines will be key monitorables.

Rating Sensitivities:

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

Upward Factors:

- Sustenance of operational and financial metrics as per BWR's estimates
- The timely tie-up of PPAs for the planned capex/expansion plan
- Long-term PPA tie-up for the remaining ~18% of the total capacity as per envisaged timelines

Downward Factors:

- Any adverse implications onto the financial risk profile of JSWEL on account of the lower-than-expected operating performance leading to deterioration in financial ratios and/or in case of a sharp reversal in industry operating condition
- 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 28 February 2021 stood at ~Rs. 1,444 Crs. JSWEL holds ~7 Crs (% pledged was 0.0% as of December 2020) shares of JSW Steel Ltd worth ~Rs. 3086.24 Crs (as on market price dated 19 March 2021). The sanctioned fund-based working capital facility on a consolidated basis was Rs. 865 Crs, and the utilisation level was at Rs. 45 Crs as of 28 February 2021.

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.

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 4,467 MW (consolidated) as of 12 March 2021. The promoter and promoter group held a 74.87% stake in JSW Energy Limited, and the remaining 25.10% was held by the public as of December 2020. Details on the subsidiaries, associates and joint ventures of JSWEL as of 31 March 2020 are in Annexure I.

About the Proposed NCD and CP O/sDetails:

The proposed NCDs of Rs. 2000 Crs will be issued in one or two tranches. The proceeds of the issue shall be utilised for its various capex/investment requirements, long-term working capital requirements, repayment/ prepayment of its existing and subsidiary term debt and other general corporate purposes. The proposed NCD will have a tenor of 8-10 years with the coupon rate in the range of ~7.75%-8.00% p.a. payable annually. The NCD would have a plain vanilla structure with no put/call options. The company has issued Rs. 50 Crs of CP having tenor of 91 days with a maturity date of 9 June 2021.

Company’s Financial Performance^s (Consolidated):

Key Financial Parameters	Unit	FY19 (Audited)	FY20 (Audited)
Total Operating Income	Rs. Crs	9137.59	8272.71
PAT	Rs. Crs	684.49	1081.18
Total Debt	Rs. Crs	10554.88	9840.48
Tangible Networth	Rs. Crs	10292.54	10154.71
D/E	Times	1.03	0.97

^sAs per BWR calculations

For 9MFY21, on a consolidated basis, the company achieved total revenue of Rs. 5,546 Crs, with an EBITDA of Rs. 2,467 Crs, against total revenue of Rs. 6,712 Crs with an EBITDA of Rs. 2,615 Crs for 9MFY20.

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

Sl. No.	Instrument/Facility	Current Rating (2021)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs. Crs)	Rating	2020***	2019	12-April-2018
1	Proposed Non-Convertible Debenture (NCD)**	Long Term	2000.00	BWR AA- (Positive)	BWR AA- (Positive) dated 14-August-2020	-	-
2	Commercial Paper(CP)#	Up to 365 days	950 .00	BWR A1+	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	BWR A1+
Total			2950.00	INR Two Thousand Nine Hundred & Fifty Crores Only			

#CP O/s was Rs. 50 Crs as of 18-March-2021

**Proposed NCD not raised till date

***Credit update on 28-Feb-2020

N/A: Not Available

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

Any other information: NIL

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short term debt](#)



Annexure I:

The list of the subsidiaries, Associates and Joint ventures of JSW Energy Limited as of 31-3-2020 is as:

Sr. No.	Name of the company	(%) Shareholding of JSWEL either directly or through subsidiaries/associates
1	JSW Energy (Barmer) Limited	100
2	JSW Hydro Energy Limited	100
3	JSW Power Trading Company Limited	100
4	Jaigad PowerTransco Limited	74
5	JSW Energy (Raigarh) Limited	100
6	JSW Energy (Kutehr) Limited	100
7	JSW Solar Limited	100
8	JSW Electric Vehicles Private Limited	100
9	JSW Energy Natural Resources Mauritius Limited	100
10	JSW Energy Natural Resources South Africa 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	Jigmining Operations No. 1 Proprietary Limited	69.44
18	Yomhlaba Coal Proprietary Limited	69.44
19	Toshiba JSW Power Systems Private Limited	5.57
20	Barmer Lignite Mining Company Limited	49.00
21	JSW Renewable Energy (Vijaynagar) Limited	100.00
22	JSW Renew Energy Limited	100.00

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