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India Ratings Upgrades JSW Energy (Barmer) to 'IND AA'; Outlook Stable

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India Ratings and Research (Ind-Ra) has upgraded JSW Energy (Barmer) Limited's (JSWEBL) Long-Term Issuer Rating to 'IND AA' from 'IND AA-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Term loan	-	-	FY30	INR17.93 (reduced from INR19.61)	IND AA/Stable	Upgraded
Fund-based limit	-	-	-	INR2.97	IND AA/Stable/IND A1+	Long--term rating upgraded; Short-term rating affirmed
Non-fund-based limit	-	-	-	INR1.25	IND AA/Stable/IND A1+	Long-term rating upgraded; short-term rating affirmed
Proposed fund-based/non-fund-based facilities	-	-	-	INR2.85	IND AA/Stable/IND A1+	Assigned

Analytical Approach: Ind-Ra continues to take a consolidated view of JSWEBL and its 100% parent JSW Energy Limited (JSWEL, 'IND AA'/Stable) and the latter's subsidiaries while arriving at the ratings, given the strong operational and strategic linkages among them. Ind-Ra has consolidated Barmer Lignite Mining Company Limited (BLMCL; 'IND A'/Rating Watch Negative, 49% stake) as JSWEBL has given corporate guarantees to BLMCL and factored in the shortfall undertaking provided by JSWEL to South West Mining Limited ('IND A'/Rating Watch Negative).

The upgrade reflects continued strong standalone credit profile of JSWEBL, resolution of the mining lease issue ensuring uninterrupted operations at the power plant, an improvement in the consolidated business profile with a long-term power purchase agreement (PPA) tied-up capacity of over 85% at FYE22 and JSWEL's strategy to grow in the non-conventional businesses including the renewable energy value chain through long-term PPAs with debt sizing commensurate to the project cash flows and de-risking the business away from thermal assets.

Key Rating Drivers

Comfortable Consolidated Credit Profile; Strong Linkages: Ind-Ra considers the credit profile of the consolidated entity as comfortable supported by the cost-plus regulated operations on over 80% of the total capacity, the presence of a sound risk assessment framework, strategic shift to long-tenured committed cash flow model, healthy plant operating metrics and low offtake risks. The credit profile is assessed to be resilient even with the announced acquisitions in the group as highlighted by Ind-Ra in its press release dated 19 September 2022.

JSWEBL and JSWEL have strong interlinkages as the former accounted for around 20% of the consolidated EBITDA generation in 1QFY23 (FY22: 25%), providing for a stable cash flow stream. Furthermore, during FY22, JSWEBL bought back shares from JSWEL amounting to INR10 billion. JSWEBL has also provided inter-corporate deposits to JSWEL of INR6.5 billion in 1QFY23 and could continue to support the parent for meeting its growth objectives over the short-to-medium term in the form of additional buy-backs, inter-corporate deposits, dividend payments, among others. The same was possible as JSWEBL continues to generate strong free cash flows and owing to its lowly leveraged capital structure, additional debt could be raised in the entity. At the consolidated level, JSWEL maintains a net leverage (net debt/operating EBITDA) of 4.5-5.0x.

Strong Predictable Cash Flows: The ratings factor in the cost-plus regulated two-part nature of operations of 1,080MW lignite-based plant with a return on equity of 15% under the framework outlined by the Rajasthan State Electricity Regulatory Commission. The plant has 100% of the capacity tied up under the long-term PPA with state distribution companies of Jaipur, Jodhpur and Ajmer for up to FY43. The power plant uses lignite as fuel, which is completely tied up with captive lignite mine (BLMCL) with complete pass-through of fuel cost. Given the fuel and offtake tie-up, and regulatory framework, Ind-Ra expects an annual revenue of INR25 billion-27 billion (FY22: INR26.7 billion, FY21: INR26.6 billion) and an operating EBITDA of INR8.5 billion-9.5 billion (INR9.6 billion, INR9.4 billion) over the medium term.

Sound Plant Operating Metrics: JSWEBL operated its plant at better-than-normative parameters over FY15-FY22, with plant availability above 80% normative level, station heat rate of less than 2,600kcal/kWh, auxiliary consumption of less than 11.5%, thereby ensuring a full recovery of fixed cost. As per the tariff order dated 1 May 2019, JSWEBL's fixed cost was INR1.7/kWh. At the current allowed variable tariff of INR2.5/kWh, JSWEBL's power is comfortably placed in the merit order dispatch among the top 40% thermal power producers of the state, ensuring a higher-than-national average thermal plant load factor (1QFY23: 73.2%, FY22: 75.9%, FY21: 74.3%). Ind-Ra expects the operating parameters to remain comfortable over the medium term, given the historical operating performance.

Mining Issue Resolved: JSWEL, in an exchange filing on 11 April 2022, disclosed that BLMCL had received a notice to stop mining operations within 15 days on account of an ongoing dispute with respect to the mining lease transfer to BLMCL. The same would have impacted the operations at JSWEBL as it relies on BLMCL for lignite procurement. Post the 15-day period, BLMCL received an extension to operate the mine, and subsequently, on 29 July 2022, received a ex-post-facto-previous approval from the central government for the transfer of lignite mines from Rajasthan State Mines and

Minerals Limited to BLMCL, thereby resolving the dispute and ensuring uninterrupted lignite supply to JSWEBL.

Strong Credit Metrics Despite Capital Cost Disallowance: The plant was constructed at a capital cost of INR70.5 billion, against which the regulator has allowed a capital cost of INR59.8 billion. Despite the disallowance, the credit metrics have been strong with the net leverage at 1.03x in FY22 (FY21: 1.3x). The net leverage improved in FY22 despite an increase in the gross debt to INR20 billion at FYE22 (FYE21: INR15 billion) with additional debt taken for financing the buyback transaction, led by a high cash balance, supported by steady EBITDA generation, debt repayments and a reduction in net working capital requirement. The regulated debt at the approved capital cost was INR15.6 billion at FYE22 as per the tariff order dated 1 May 2019. The total debt also includes INR3.7 billion infused as subordinated debt in BLMCL (total subordinated debt extended to BLMCL: INR5.7 billion). The company has also extended corporate guarantees to BLMCL's long-term loans of about INR9.4 billion at FYE22; including these, the net leverage stood at 1.9x at FYE22, which is much lower than the net leverage of other regulated power plants which generally operate at over 4.0x. The gross interest coverage (operating EBITDA/gross interest expense) remained strong at 7x in FY22 (FY21: 6.2x).

Liquidity Indicator - Adequate: JSWEBL's liquidity remains comfortable with strong cash and equivalents (including current investments) of INR10 billion at FYE22 (FYE21: INR2.6 billion). JSWEBL generated free cash flow of INR13 billion in FY22 (FY21: INR9.1 billion), primarily led by a decline in receivables to INR4.9 billion (INR8.5 billion). The company has annual interest pay-outs of around INR1.5 billion in FY23-FY24 and debt repayment of INR3.4 billion in FY23 and INR3.9 billion in FY24. At the consolidated level, given the anticipated growth in renewables, excess cash flows at JSWEBL may be used for further upstreaming. A further debt drawdown is also possible in JSWEBL, if required, at JSWEL level. Ind-Ra estimates JSWEBL could comfortably support total debt of around INR35 billion, if required, while maintaining a project life cycle ratio of 1.5x till FY35. However, in case of a timing difference in cash flow deployment, JSWEBL could also prepay the term loans. Ind-Ra estimates the average debt service coverage ratio to remain strong above 1.5x over the medium term. JSWEBL's average use of the fund-based limit was below 10% over the 12 months ended August 2022 on the back of sound cash flow generation.

Variable Cost Allowed on Ad-hoc Basis: The lignite transfer price for BLMCL is yet to be finalised by the Rajasthan Electricity Regulatory Commission. As per the tariff order of FY19, BLMCL is allowed 85% recovery on its assessed transfer price, resulting in a variable cost of INR2.5/kWh for JSWEBL. The fixation of the final transfer price has been pending since the start of plant operations on various regulatory grounds. Any increase in the transfer price could lead to a higher variable cost per unit, resulting in a lower placement in the merit order despatch and lower plant load factor; however, it will not have any impact on EBITDA generation as the variable cost is completely pass-through for JSWEBL.

Rating Sensitivities

Negative: Deterioration in plant operating metrics, leading to a lower-than-normative EBITDA generation on a sustained basis or a higher-than-expected debt taken to support the group entities, leading to a higher-than-expected net leverage or deterioration in the consolidated credit profile, all on a sustained basis, will lead to a negative rating action.

Company Profile

JSWEBL is a lignite-based thermal power plant in Barmer, Rajasthan operated by the JSWEL. The coal for the plant is sourced from Kapurdi and Jalipa mines operated by BLMCL.

FINANCIAL SUMMARY

Particulars	FY22	FY21
Operating revenue (INR billion)	26.7	26.6

Operating EBITDA (INR billion)	9.6	9.4
Operating EBITDA margin (%)	36	35
Gross interest coverage (x)	7.0	6.2
Net leverage (x)	1.0	1.3
Net leverage including guaranteed debt (x)	1.9	2.4
Source: Ind-Ra, JSWEBL		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook
	Rating Type	Rated Limits (billion)	Rating	24 June 2021
Issuer rating	Long-term	-	IND AA/Stable	IND AA-/Stable
Term loan	Long-term	INR17.93	IND AA/Stable	IND AA-/Stable
Fund-based limit	Long-term/Short-term	INR2.97	IND AA/Stable/IND A1+	IND AA-/Stable/IND A1+
Non-fund-based limit	Long-term/Short-term	INR1.25	IND AA/Stable/IND A1+	IND AA-/Stable/IND A1+
Proposed fund-based/non-fund-based facilities	Long-term/Short-term	INR2.85	IND AA/Stable/IND A1+	-

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loan	Low
Fund-based limit	Low
Non-fund-based limit	Low

Proposed fund-based/non-fund-based facilities	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

Parent and Subsidiary Rating Linkage