India Ratings & Research
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India Ratings Assigns JSW Energy and its NCDs 'IND AA-'/Stable

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By Nitin Bansal

India Ratings and Research (Ind-Ra) has assigned JSW Energy Limited (JSWEL) a Long-Term Issuer Rating of '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
Non-convertible debentures (NCDs)*	-	-	-	INR7	IND AA-/Stable	Assigned
Term loans	-	-	June 2025	INR6.82	IND AA-/Stable	Assigned
Proposed NCDs#	-	-	-	INR10	IND AA-/Stable	Assigned
Fund-based limits	-	-	-	INR4.8	IND AA-/Stable/IND A1+	Assigned
Non-fund based limits	-	-	-	INR29.52	IND A1+	Assigned
Commercial paper**	-	-	7- 365 days	INR4.5	IND A1+	Assigned

*Details in Annexure
Yet to be issued
** Carved out of the fund-based limits

ANALYTICAL APPROACH: Ind-Ra has taken a consolidated view of JSWEL and its subsidiaries, for arriving at the ratings, because of operational and strategic linkages.

KEY RATING DRIVERS

Regulated Nature of Operations and Healthy Long-Term PPAs: The ratings are supported by the regulated cost-plus two part nature of JSWEL's operations of 3.7GW thermal power capacity (80.4% of 4.5GW capacity) with guaranteed return on equity (RoE) of 15.5%-16.5%, based on the central and state (Himachal Pradesh and Rajasthan) regulatory commission regulations. The overall long-term power purchase agreements (PPAs) are likely to increase to 87% of the overall capacity in FY22, post the tie-up of an open capacity at JSWEL's Ratnagiri plant with JSW Steel Limited ('IND AA'/Negative) as the latter's Dolvi expansion comes onstream. For Vijayanagar plant, JSWEL is exploring avenues to tie-up open capacity over next two to three years from the upcoming renewable round the clock hybrid bids or from any increase in JSW Steel's demand at its Vijayanagar plant. JSWEL regulated equity for hydro plants in Barmer stood at INR39.4 billion at FYE20 and is likely to be around INR16 billion (Ind-Ra estimates using public information) for its Ratnagiri and Vijayanagar plants (tied majorly with group captive consumers). The high proportion of long-term PPAs ensures predictable cash flows, thus providing enough visibility on the equity requirements for capex plans.

JSWEL has maintained healthy plant load factors (PLFs) and plant availability factors at all regulated plants, thus ensuring full RoE recovery along with incentives. JSWEL's operating and maintenance (O&M) expenses also averaged INR1.79 million/MW in FY20 (FY19: INR1.87 million/MW). During FY20, the company derived 96% of its EBITDA from regulated operations. Furthermore, JSWEL's expanded renewable and hydro power capacities would be tied-up on a long-term basis under competitive bids, ensuring an improvement in the proportion of tied-up capacity. The untied capacity of 785MW at the standalone level is sold under the merchant/short-term contract route, based on the price attractiveness. JSWEL's lower capital cost of INR42 million/MW along with efficient operations as reflected in its low O&M expenses (FY20: INR1.8 million/MW) allows the company to benefit in the merchant markets, even in case of benign exchange prices, however subject to the recovery of variable cost. JSWEL's reported RoCE (excluding fair value impact of JSW Steel's shares) stood at 14.5% in FY20 (EBITDA/net debt+equity – JSW Steel's shares value; FY19: 12.8%).

Strategy Shift from Deleveraging to Committed Cash Flow Led Growth: JSWEL over FY17-FY20 reduced its debt, with debt including acceptances declining to INR107.5 billion at FYE20 (FY17: INR168 billion) through strong cash flow from operations (cumulative FY17-FY20: INR81 billion), a well-managed working capital cycle (Average FY16-FY20: 75 days) and limited maintenance capex related outflows (cumulative capex over FY16-FY20: INR8 billion). The debt further reduced to INR89.3 billion at end-9MFY21. The last successful acquisition of hydro assets was in FY15 (Karcham Wangtoo and Baspa). However, the management, after witnessing the evolution of the renewable space and assessing the risk metrics basis regulation, tariff competitiveness, technology, counterparty, funding, must-run status and site selection, is looking at growing the renewable portfolio with bids having healthy equity internal rate of returns and strong counterparties. JSWEL plans to increase the operational capacity to 10GW over the medium term with 60%-70% total portfolio in hydro and renewables.

Ind-Ra expects JSWEL to start leveraging the consolidated balance sheet from FY22, given the inherently high leverage (gross debt/EBITDA: 5x-5.5x), supported by renewable projects due to long-term PPAs with strong counterparties. Cash flow from operations would meet the equity requirements of under construction projects in a debt-equity of 65:35 to 80:20. Ind-Ra opines the growth in the renewable portfolio would result in an uptick in the capacity tied-up on a long-term basis, aid in cash flow diversification, provide additional cash flow stability and iv) lower the risk of thermal capacity disruption. Additionally, the management's medium-term focus would remain on the development of renewable portfolio including hydro assets with no additional investments in the thermal and limited investments in transmission and distribution portfolio, till the risk-reward turns favourable on returns, regulations, construction risk and political interference.

Risk Assessment Framework Aids Business Profile: Ind-Ra draws comfort from the management's stance taken historically with respect to staying away from ultra-mega power projects, no thermal expansion post FY13, delayed entry in renewables post adequate clarity and shelving electric vehicles plans. The management's internal rate of return expectation is high, despite the low return environment, leading to limited bid activity. Moreover, given the large capex intensity of the projects, JSWEL has focused on lowering capex cost per MW to remain competitive, resulting in low debt servicing requirements. For the under construction hydro and renewable assets, capex at INR114.5 million/MW and INR58 million/MW, respectively, compares in line with industry averages. JSWEL has indicated that it prefers to descope or split various components of the capital works for its proposed renewable projects.

However, there have been instances where the risks were not fully covered such as untied capacities at Ratnagiri and Vijayanagar plants, though the impact of the same on the balance sheet is limited. Also, JSWEL had given INR7.5 billion advances to Jaiprakash Power Ventures Limited in FY16 for the purchase of its thermal Bina asset, against which INR3 billion was to be paid for JPVL post uprating of the hydro assets to 1,391MW which is still work in progress. However, the lenders of JPVL had invoked strategic debt restructuring in FY17, leading to a termination of this transaction in FY19. The company entered into a debt resolution agreement during FY20, post which INR3.5 billion has been converted to equity and around INR2.8 billion has been written off with INR1.2 billion to be received post JPVL's successful restructuring. The company has made a provision for the same. Additionally, JSWEL had provided loans to Jindal Steel and Power Limited for purchase of an asset of INR3.8 billion in Tamnar in FY18 which was repaid fully in 9MFY21. Ind-Ra would continue to monitor and assess impact of fund movement and loans and advances so extended on the financial profile.

Low Offtake Risks: Offtake risks for JSWEL are limited on account of i) 1,300MW hydro projects with a must-run status (capacity likely to be uprated to 1,391MW post approval from Central Electricity Authority) and ii) a competitive tariff with variable cost of generation for regulated thermal assets at around INR2.5/unit, thus positioning JSWEL better in the merit order dispatch. The company however is exposed to risk in the open capacity as the same is run on imported coal, although the contribution to EBITDA remains low (4% in FY20). Thus, high imported coal prices with low prevailing prices on bilateral/exchange markets can lower the PLFs on the untied capacity. The risk is mitigated partially as JSWEL has approval to blend 50% domestic coal at both Ratnagiri and Vijayanagar plants. However, Ind-Ra in its analysis does not assume a significant EBITDA generation from the sales from untied capacity.

Healthy Operating Performance of Plants: JSWEL reported high plant availability of 84% in 9MFY21 for its Barmer plant (FY20: 83%), 90% for Ratnagiri (94%) for the tied-up capacity, 85% for Vijayanagar (95%) for the tied-up capacity, ensuring the entire fixed cost recovery to the extent of PPA. The operating parameters for all of its thermal plants, including station heat rate and auxiliary consumption, remain in line with normative, leading to no under recovery on fuel cost. The PLF for plants declined in 9MFY21, however it was mainly on account of reduced merchant power sales due to a reduction in exchange prices on account of a decline in the power demand amid the COVID-19 led economic disruptions. The PLF to its long-term sales contracted customers remained robust during 9MFY21. However, fuel cost being a pass through for its tied-up capacity, JSWEL remains protected from volatility in fuel price and forex risks. JSWEL has secured fuel for its Barmer plant through a captive mine being operated by its associate Barmer Lignite Mining Co. Ltd, (a 49:51 joint venture between JSW Energy (Barmer) Limited and Rajasthan State Mines and Minerals Ltd).

Receivable Risks Remain, Though Managed: JSWEL's debtors and debtors days increased to INR21 billion in FY20 (FY19: INR14 billion) and 93 days (57 days), respectively, substantially attributed to its Barmer plant. However, the debtors declined in December 2020 to INR17 billion. Ind-Ra expects the company's receivables to largely remain stable at FYE21 on account of the liquidity schemes announced by the government for discoms under Atamnirbhar Bharat scheme. Also, the counterparty risk is fairly manged through i) the diversified nature of the off-takers across nine discoms, ii) sale of the power on the cost-plus basis to JSW group to lower payments risk and 10% in merchant sales, iii) payment security mechanism in the form of letter of credit, iv) favourable positioning in the merit order despatch schedule and iv) presence of state government guarantees in the Baspa and Barmer projects. The company also receives late payment surcharge against delayed payments. However, the debtors risk remains on account of the weak financial position of discoms. As the share of renewable energy portfolio increases with strong counterparties, the receivable days are likely to remain comfortable.

Capacity Expansion and Diversification Underway: JSWEL plans to expand its total capacity by 2.1GW to 6.6GW over FY21-FY25. The Kutehr project, despite having a high capital cost/MW, will have a levelised ceiling tariff of 4.5/kWh at bus bar (tariff to be determined by HERC u/s 62 of Electricity Act, after signing of PPA) post revising the depreciation life to 40 years and back-ended sharing of free energy to the home state. Moreover, the PPA for the hydro project is likely to be signed by end-4QFY21 with discoms of Haryana unlike other hydro projects where PPAs are signed closer to commercial operations date. However, till that time a PPA is signed Ind-Ra estimates tariff risks would remain as renewable tariffs could decline as the hydro asset comes onstream. Further, Ind-Ra draws comfort from the recent issuance of Hydro Power Obligation trajectory by Ministry of Power which signifies the importance of hydro assets. In August 2020, JSWEL through its subsidiary won a bid to build 810MW of blended renewable capacity (wind with option of blending 20% solar), sellable to Solar Energy Corporation of India at INR3/kWh funded in a debt-equity ratio of 70:30. The under-construction capacity stands at 31% of the operational capacity, thus entailing significant construction risks. However, Ind-Ra draws comfort from JSWEL's track record of completing its existing thermal projects at healthy capital costs. The Vijayanagar plant has the lowest per MW capital cost of INR36 million/MW. With the planned under construction capacity, the overall capacity would be fairly diversified with thermal power contributing around 47% (FYE20: 70%), hydro 25% (30%) and renewable 28% (nil) of the total capacity.

Leverage to Increase: Ind-Ra expects the net leverage to see an increase to 4x-4.5x by FY23, as the company draws debt to fund its announced capex plans of 810MW (Solar Energy Corporation of India Ltd. project) and 240MW (Kutehr project) which entail a cumulative capex outlay of INR75 billion-80 billion. Furthermore, the company has stated its intention to get into the renewable group captive schemes with JSW group companies. Including the group captive schemes, JSWEL plans a total capex outlay of about INR135 billion over the next four-five years which is likely to be funded with an estimated debt of around INR100 billion. The leverage will be a function of the renewable portfolio and growth ambitions.

The increase in leverage however might not result in a weakening of the financial metrics, as the increase would be on account of the nature of the projects, and the committed long tenured cash flows. The leverage could also be higher or lower than expected by Ind-Ra, depending on the capex finally incurred and commissioning schedules. JSWEL's net interest coverage (EBITDA/gross interest expense) stood at 3.5x in FY20 (FY19: 3.1x) and net leverage (net debt including acceptances/EBITDA) of 3.3x (4x). Ind-Ra expects the net leverage to reach 2.5x-2.7x at FYE21, given the strong free cash flows due to a strong operational performance and limited capex done during 9MFY21. Ind-Ra would continue to evaluate the equity commitment in under construction projects with respect to equity generation. Any mismatch, leading to borrowings for equity and stretching the net leverage above Ind-Ra estimates, could result in a negative rating action.

Liquidity Indicator - Adequate: JSWEL liquidity remains comfortable with around INR9 billion of cash at FYE20. The free cash improved to INR16 billion in 9MFY21, on account of improved debtors realisation. However, the subsidiarised nature of the assets lends itself to lower cash flow fungibility than if the entire operational capacity were to be on a single balance sheet. Furthermore, the liquidity position is supported by its standalone fund-based limits of INR5.45 billion, whose average utilisation was below 10% for the 12 months ended December 2020. Since JSWEL avails acceptances facility for its creditors, the drawing power generally remains nil in its fund-based limits. Hence, JSWEL has also availed an INR4.5 billion short-term loan facility which can be availed without drawing power restrictions and is a back-up for the rated commercial paper. JSWEL's consolidated EBITDA of INR29.5 billion in FY20 (FY19: INR28.5 billion), along with strong cash flow from operations post servicing of interest of around INR17 billion (FY19: INR20 billion), provides enough visibility for repayments along with the planned equity requirement of around INR35 billion for the expansion over FY21-FY25. The consolidated debt at 9MFY21 was INR89.3 billion (FY20: INR107 billion), out of which INR83.1 billion (INR97.6 billion) was long-term debt and INR6.2 billion (INR9.9 billion) was short-term debt. JSWEL has repayments of INR16 billon and INR11.2 billion in FY21 and FY22, respectively.

Ind-Ra expects the debt service coverage ratio to remain comfortable above 1.5x for FY22. JSWEL had opted for the debt moratorium during March to May 2020, however repaid all the planned repayments in June 2020. JSWEL has incurred capex of INR2.2 billion in 9MFY21. The planned capex on SECI project (INR47 billion-48 billion) is likely to be completed over 4QFY21-FY23 subject to the timely signing of a PPA and group captive schemes (INR58 billion-60 billion as per Ind-Ra's estimates) in FY22-FY24, subject to agreements with group counterparties. Ind-Ra assumes a construction period of two years for renewable projects post signing of the PPA. While the debt has been sanctioned for the Kutehr project, a debt tie-up is underway for its under construction renewable projects. JSWEL also holds shares of JSW Steel valued at around INR27 billion as of December 2020 which could be utilised, if the need arises. Around 35.6% of the promoter shareholding was pledged at end-9MFY21.

Standalone Performance: At the standalone level, JSWEL reported revenue of INR22 billion in 9MFY21 (FY20: INR43 billion, FY19: INR51 billion), EBITDA of INR5.5 billion (INR9.2 billion, INR8 billion), interest coverage of 3.2x (2.8x, 1.9x) and net leverage of 1.95x (2.9x, 4.9x).

RATING SENSITIVITIES

Positive: Ability to diversify the revenue with a healthy return profile and/or timely execution of projects within the estimated time and cost and/or an increase in the percentage of tied-up capacity above 92%, leading to a sustained improvement in the financial profile, would be positive for ratings.

Negative: An increase in the debtors and/or significant outflows towards projects with non-committed cash flows and/or higher outflows towards loans and advances and/or equity commitment being higher than that being internally generated and/or a lower-than-expected operational performance, leading to deterioration in the overall liquidity and a decline in the financial profile, will be negative for the ratings.

COMPANY PROFILE

JSWEL is in the business of power generation and transmission primarily in the states of Karnataka, Maharashtra, Rajasthan, and Himachal Pradesh. The company has its presence across power sectors including generation, power transmission, mining, power plant equipment manufacturing and power trading.

JSWEL has a 4,559MW generation capacity, out of which 3,158MW is thermal power including Vijayanagar, Karnataka (860MW); Ratnagiri, Maharashtra (1,200MW); lignite-based power plant in Barmer, Rajasthan (1,080MW), Nandyal, Andhra Pradesh (18MW), 1,391MW hydropower Karcham Wangtoo, Himachal Pradesh (1,091MW) and Baspa, Himachal Pradesh (300MW) and solar power across four states (10MW). JSWEL also has a transmission line through a 74:26 joint venture with Maharashtra State Electricity Transmission Company Limited. The project consists of a 400kV double circuit Jaigad – New Koyna (55km) and Jaigad – Karad (110km) lines for transmission of the power generated at the Ratnagiri plant (Maharashtra).

CONSOLIDATED FINANCIAL SUMMARY

Particulars	**9MFY21**	**FY20**	**FY19**
Revenue (INR billion)	53.5	82.7	91.4
EBITDA (INR billion)	22.8	29.6	28.5
EBITDA margin (%)	42.7	35.7	31.2
Gross interest coverage (x)	3.6	2.8	2.4
Net leverage (x)	2.6	3.3	4.0
Source: Ind-Ra, JSWEL			

ANNEXURE

Instrument Type	**ISIN**	**Date of Issuance**	**Coupon Rate (%)**	**Maturity Date**	**Size of Issue (billion)**	**Rating/Outlook**
NCDs	INE121E07320	30 December 2016	8.65	30 December 2022	INR4	IND AA-/Stable

NCDs	INE121E07346	29 January 2020	*	28 January 2022	INR3	IND AA-/Stable

*(Benchmark 12-month treasury-bill rate) + 3. 30 % p.a.

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels 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

Analyst Names

Primary Analyst

Nitin Bansal

Associate Director
India Ratings and Research Pvt Ltd DLF Epitome, Level 16, Building No. 5, Tower B DLF Cyber City, Gurgaon Haryana 122002
0124 6687290

Secondary Analyst

Bhanu Patni

Senior Analyst
0124 6687276

Committee Chairperson

Abhishek Bhattacharya

Director and Head Large Corporates
+91 22 40001786

Media Relation

Ankur Dahiya

Manager – Corporate Communication
+91 22 40356121