



RESULT UPDATE

JSW ENERGY

High fuel cost key dampener

India Equity Research | Power



JSW Energy posted EBITDA 10% below our estimate due to higher fuel cost. Key highlights: 1) Net generation dipped 5% YoY owing to weaker hydro generation (down 35% YoY on account of lower water levels in the Sutlej basin) that was partially offset by higher generation at Ratnagiri (up 31% YoY) aided by greater merchant offtake. 2) The benefit of higher merchant prices was more than offset by the spike in fuel cost (up 24% YoY) due to rising international coal prices and a depreciating rupee. Consequently, EBITDA dipped 11% YoY. 3) Ratnagiri Unit 2 has been brought under group captive capacity, which affords more flexibility at the plant level to leverage the merchant market. On the EV front, the budgeted investment of USD150mn (USD1bn committed overall) might spill over to next year owing to a delay in strategy formulation. We maintain the cautious stance on the company due to its unrelated diversification. Maintain 'HOLD' with revised TP of INR72(INR75 earlier).

Higher merchant offtake comes to rescue

Hydro generation dipped 35% YoY in Q1FY19 due to lower snow-melting last year (the Himachal plants are run-of-river). Furthermore, fuel cost jumped 24% YoY on account of rising international prices and currency depreciation. However, the company benefited from higher merchant offtake in the current quarter amid the spike in electricity demand (peak demand of 173GW in May) and domestic coal issues (merchant market volumes shot up 30% QoQ/17.5%YoY). Consequently, PLF at the Ratnagiri plant improved to 84% in Q1FY19 from 66% in Q1FY18.

Ratnagiri Unit-2 under group captive implies better flexibility

Ratnagiri Unit-2 has been brought under group captive, which is expected to be ramped up over the next 12–18 months. However, this move allows for better flexibility as captive demand requirements are now spread over three units and any idle capacity can be ramped up in case of favourable merchant prices.

Outlook and valuations: Remain cautious; maintain 'HOLD'

While the balance sheet strengthened further owing to debt reduction and management intends to bring higher capacity under group captive to improve revenue visibility, we remain cautious on the unrelated diversification into the electric vehicles business in an evolving market. Hence, we maintain 'HOLD/SP' with a revised SOTP-based TP of INR72 (INR75 earlier) factoring in a higher risk free rate.

Financials	(INR mn)							
Year to March	Q1FY19	Q1FY18	% Change	Q4FY18	% Change	FY18	FY19E	FY20E
Net rev.	23,606	22,316	5.8	17,751	33.0	80,490	89,375	97,281
EBITDA	7,762	7,835	(0.9)	4,215	84.2	27,625	31,064	33,389
Adj. net profit	2,295	2,341	(2.0)	(621)	(469.6)	4,959	7,211	9,013
Dil. EPS (INR)	1.4	1.4	(2.0)	(0.4)	(469.6)	3.0	4.4	5.5
EV/EBITDA (x)						8.3	7.5	7.3
Price/BV (x)						1.0	1.0	0.9
ROAE (%)						4.7	6.5	7.8

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA (R: JSWE.BO, B: JSW IN)

CMP	: INR 67
Target Price	: INR 72
52-week range (INR)	: 98 / 61
Share in issue (mn)	: 1,640.3
M cap (INR bn/USD mn)	: 109 / 1,612
Avg. Daily Vol.BSE/NSE('000)	: 7,967.7

SHARE HOLDING PATTERN (%)

	Current	Q4FY18	Q3FY18
Promoters *	75.0	75.0	75.0
MF's, FI's & BK's	8.1	8.1	6.9
FII's	6.0	6.0	6.4
Others	10.9	10.9	11.7
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Power Index
1 month	(11.4)	2.3	(5.4)
3 months	(25.9)	3.7	(16.3)
12 months	(1.5)	10.7	(18.1)

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Table 1: SOTP valuation

Unit	Capacity / Length (MW)	Method	Value (INR mn)	INR/ share
Generation				
JSWEL SBU1	260	NPV @ Ke 12%	4,237	2.6
JSWEL SBU2	600	NPV @ Ke 12%	19,955	12.2
RWPL-I	1,080	NPV @ Ke 12%	19,802	12.1
Ratnagiri	1,200	NPV @ Ke 12%	8,404	5.1
Hydro assets	1,391	NPV @ Ke 12%	21,035	12.8
Generation- total	4,531		73,433	45
JPTL	169 Km	NPV @ Ke 12%	1,240	0.8
Power Trading		10x FY18 PAT	1,646	1.0
O&M Services		10x FY18 PAT	11,256	6.9
BLMCL	JV with RSMML	FY18E BV(Debt+Equity)	3,969	2.4
Cash + Investments		FY18BV	27,260	16.6
Total			118,805	72

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q1FY19	Q1FY18	% change	Q4FY18	% change	FY18	FY19E	FY20E
Net revenues	23,606	22,316	5.8	17,751	33.0	80,490	89,375	97,281
Cost of operations	13,980	11,446	22.1	11,230	24.5	44,135	48,799	54,084
Staff costs	608	560	8.7	507	20.0	2,151	2,287	2,361
Other operating expenses	1,255	1,623	(22.7)	1,799	(30.2)	6,579	7,225	7,447
Total expenditure	15,843	13,628	16.3	13,536	17.0	52,864	58,310	63,892
EBITDA	7,762	7,835	(0.9)	4,215	84.2	27,625	31,064	33,389
Depreciation	2,899	2,428	19.4	2,377	21.9	9,661	10,377	10,403
EBIT	4,864	6,261	(22.3)	1,838	164.7	17,965	20,688	22,986
Interest	3,130	3,963	(21.0)	3,235	(3.2)	14,559	14,971	14,861
Other income	673	1,025	(34.3)	1,039	(35.2)	4,650	4,766	5,159
Add: Exceptional items				(4,179)	(100.0)	(4,179)		
Profit before tax	2,407	3,323	(27.6)	(4,537)	(153.0)	3,876	10,482	13,285
Provision for taxes	236	1,114	(78.8)	19	1,154.3	2,532	3,250	4,251
Minority interest	-	(1)	(100.0)	-		69	62	62
Associate profit share	124	(37)	(433.2)	(245)	(150.8)	(495)	40	41
Reported net profit	2,295	2,173	5.6	(4,801)	(147.8)	780	7,211	9,013
Adjustments	-	-		-		4,179	-	-
Adjusted Profit	2,295	2,341	(2.0)	(621)	(469.6)	4,959	7,211	9,013
Diluted shares (mn)	1,640	1,640		1,640		1,640	1,640	1,640
Adjusted Diluted EPS	1.4	1.4	(2.0)	(0.4)	(469.6)	3.0	4.4	5.5
Diluted P/E (x)	-	-		-		1.0	1.0	0.9
EV/EBITDA (x)	-	-		-		8.3	7.5	7.3
ROAE (%)	-	-		-		4.7	6.5	7.8
As % of net revenues	-	-		-		-	1	1
Direct costs	59.2	51.3		63.3		54.8	54.6	55.6
Employee cost	2.6	2.5		2.9		2.7	2.6	2.4
Other operating expenses	5.3	7.3		10.1		8.2	8.1	7.7
EBITDA	32.9	35.1		23.7		34.3	34.8	34.3
Reported net profit	9.7	9.7		(27.0)		1.0	8.1	9.3
Tax rate	9.8	33.5		(0.4)		65.3	31.0	32.0

Company Description

JSWEL was incorporated in 1994 as the energy vertical of the JSW Group. The company has been in the power generation business since 2000 and later ventured into the transmission and trading business as well. It has 3,140 MW of operational generating thermal capacity and has ventured into hydro power by acquiring 1,391MW of capacity from Jai Prakash Power in FY16. In addition, it has power generation projects at an early stage under development with a proposed combined installed capacity of 10,000 MW. The company has recently announced its foray into Electric vehicle manufacturing business and related infra like battery. It envisage a total CAPEX of INR40bn.

Investment Theme

The company's plan to sell ~25% on merchant basis to take advantage of higher realisations which it believes will be high over medium term. However, higher potential for realisations is accompanied by the risk of volatility in merchant prices, which raises uncertainty in the company's earnings.

~2GW of its projects, coal is sourced entirely on spot from international markets which keeps coal costs very volatile.

With a D/E of ~1x, the company can flex its financial muscle and can look for profitable inorganic growth in near future

While still early, JSE Energy's bet on diversification into electric vehicles is not very positive and we highlight following risks: 1) unproven business model? 2) Existing OEMs are struggling as EV battery costs are still 2.5-3.0x the cost of a conventional car battery and charging infrastructure is entirely missing in the country; and 3) Synergies in this unrelated diversification are difficult to understand.

Key Risks

Merchant prices moderating

Our hypothesis is that merchant prices will stay elevated in the south at INR 4.5+/kWh in the short-medium term. Merchant prices at moderating (downwards of INR 4.25/kWh) due to declining SEB's demand or buying capacity is a risk to our call that merchant players will start showing healthy merchant realizations.

International/spot coal costs jump

International coal prices have been moderating on account of decline in demand for thermal power across the globe, supplies from new countries like Australia, etc, which we believe will keep coal prices at the current level in the years to come. However, any surge in international coal prices is a risk to our call that imported/spot coal will maintain the cost of generation, aiding profitability.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.3	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
Sector				
NewCastle FoB(USD/t)	56	56	56	56
Melawan FoB(USD/t)	46	46	46	46
Company				
Year end capacity (MW)	4,531	4,531	4,531	4,531
Net Gen./Sold (mn kwh)	21,444	21,816	23,815	26,086
Avg. Realisation(INR/kwh)	3.7	3.6	3.7	3.7
Merchant sale (mn kwh)	6,731	6,364	7,982	8,937
Merchant Realisation (INR/kwh)	3.4	3.5	3.7	3.9
Long Term sale (mn kwh)	14,713	15,452	15,833	17,149
LT Realisation (INR/kwh)	3.9	3.7	3.7	3.6
Avg. Energycost(INR/kwh)	2.2	2.0	2.0	2.0
Avg. O&M/unit (INR/kwh)	0.41	0.4	0.4	0.38
Avg. Dep/unit (INR/kwh)	0.45	0.44	0.44	0.4
Avg. Int/unit (INR/kwh)	0.79	0.67	0.63	0.56
Tax rate (%)	30.3	30.0	31.0	32.0

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	82,634	80,490	89,375	97,281
Cost of Operations	40,603	44,135	48,799	54,084
Other operating expenses	6,670	6,579	7,225	7,447
Employee costs	2,118	2,151	2,287	2,361
Total operating expenses	49,391	52,864	58,310	63,892
EBITDA	33,244	27,625	31,064	33,389
Depreciation	9,692	9,661	10,377	10,403
EBIT	23,552	17,965	20,688	22,986
Less: Interest Expense	16,848	14,559	14,971	14,861
Add: Other income	2,170.00	4,650.2	4,765.87	5,159.43
Profit Before Tax	8,875	3,876	10,482	13,285
Less: Provision for Tax	2,690	2,532	3,250	4,251
Less: Minority Interest	(65)	69	62	62
Add: Exceptional items	-	(4,179)	-	-
Associate profit share	41	(495)	40	41
Reported Profit	6,290	780	7,211	9,013
Exceptional Items	-	(4,179)	-	-
Adjusted Profit	6,291	4,959	7,211	9,013
Shares o/s (mn)	1,640	1,640	1,640	1,640
Adjusted Basic EPS	3.8	3.0	4.4	5.5
Diluted shares o/s (mn)	1,640	1,640	1,640	1,640
Adjusted Diluted EPS	3.8	3.0	4.4	5.5
Adjusted Cash EPS	9.7	8.9	10.7	11.8
Dividend per share (DPS)	2.0	-	2.0	2.0
Dividend Payout Ratio(%)	62.6	-	54.6	43.7

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	59.8	65.7	65.2	65.7
Depreciation	11.7	12.0	11.6	10.7
Interest Expense	20.4	18.1	16.8	15.3
EBITDA margins	40.2	34.3	34.8	34.3
Net Profit margins	7.5	6.2	8.1	9.3

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	(17.1)	(2.6)	11.0	8.8
EBITDA	(19.8)	(16.9)	12.4	7.5
PBT	(56.7)	(56.3)	170.4	26.7
Adjusted Profit	(54.9)	(21.2)	45.4	25.0
EPS	(54.9)	(21.2)	45.4	25.0

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	16,280	16,401	16,401	16,401	
Reserves & Surplus	87,405	94,697	97,971	103,048	
Shareholders' funds	103,685	111,097	114,372	119,448	
Minority Interest	24	(39)	23	85	
Long term borrowings	131,265	108,213	116,106	126,250	
Short term borrowings	22,908	18,106	18,106	18,106	
Total Borrowings	154,173	126,319	134,212	144,356	
Long Term Liabilities	489	1,065	1,065	1,065	
Def. Tax Liability (net)	5,801	4,280	4,280	4,280	
Sources of funds	264,171	242,720	253,951	269,233	
Gross Block	196,326	199,912	221,912	246,912	
Net Block	178,765	172,970	184,593	199,190	
Capital work in progress	5,269	2,935	1,200	1,200	
Intangible Assets	16,141	15,804	15,804	15,804	
Total Fixed Assets	200,175	191,709	201,597	216,194	
Non current investments	13,599	20,782	20,782	20,782	
Cash and Equivalents	10,032	6,479	10,852	12,079	
Inventories	5,967	5,355	6,236	5,191	
Sundry Debtors	21,828	11,512	10,525	13,462	
Loans & Advances	12,181	7,498	7,498	7,498	
Other Current Assets	22,107	23,875	23,875	23,875	
Current Assets (ex cash)	62,083	48,240	48,134	50,025	
Trade payable	21,187	23,271	26,196	28,629	
Other Current Liab	531	1,218	1,218	1,218	
Total Current Liab	21,718	24,489	27,414	29,847	
Net Curr Assets-ex cash	40,364	23,751	20,720	20,179	
Uses of funds	264,171	242,720	253,951	269,233	
BVPS (INR)	63.2	67.7	69.7	72.8	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	6,290	780	7,211	9,013	
Add: Depreciation	9,692	9,661	10,377	10,403	
Interest (Net of Tax)	11,741	5,048	10,330	10,105	
Others	3,875	12,053	(103)	(383)	
Less: Changes in WC	6,929	11,796	3,031	542	
Operating cash flow	38,526	39,338	30,845	29,680	
Less: Capex	4,500	3,586	22,000	25,000	
Free Cash Flow	34,026	35,752	8,845	4,680	

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		38,526	39,338	30,845	29,680
Financing cash flow		(25,949)	(39,676)	(10,973)	(8,612)
Investing cash flow		(7,619)	(2,148)	(15,499)	(19,841)
Net cash Flow		4,958	(2,486)	4,373	1,227
Capex		(4,500)	(3,586)	(22,000)	(25,000)
Dividend paid		(3,927)	(1,185)	(3,936)	(3,936)

Profitability and efficiency ratios		FY17	FY18	FY19E	FY20E
Year to March					
ROAE (%)		6.2	4.7	6.5	7.8
ROACE (%)		10.5	9.1	10.5	11.0
Inventory Days		55	47	43	39
Debtors Days		112	76	45	45
Payable Days		209	184	185	185
Cash Conversion Cycle		(41)	(61)	(97)	(101)
Current Ratio		3.3	2.2	2.2	2.1
Gross Debt/EBITDA		4.6	4.6	4.3	4.3
Gross Debt/Equity		1.5	1.1	1.2	1.2
Adjusted Debt/Equity		1.5	1.1	1.2	1.2
Interest Coverage Ratio		1.4	1.2	1.4	1.5

Operating ratios		FY17	FY18	FY19E	FY20E
Year to March					
Total Asset Turnover		0.3	0.3	0.4	0.4
Fixed Asset Turnover		0.4	0.4	0.5	0.5
Equity Turnover		0.8	0.7	0.8	0.8

Valuation parameters		FY17	FY18	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)		3.8	3.0	4.4	5.5
Y-o-Y growth (%)		(54.9)	(21.2)	45.4	25.0
Adjusted Cash EPS (INR)		9.7	8.9	10.7	11.8
EV / Sales (x)		3.1	2.9	2.6	2.5
EV / EBITDA (x)		4.3	4.3	4.0	4.0

Additional Data

Directors Data

Mr. Sajjan Jindal	Chairman & Managing Director, Executive	Mr. Nirmal Kumar Jain	Non Executive, Non Independent
Mr. Chandan Bhattacharya	Non Executive, Independent	Mr. Sanjay Sagar	Jt. Managing Director and CEO
Mr. Pramod Menon	Director-Finance	Shailaja Chandra	Non Executive, Independent
Ms. Sheila Sangwan	Non Executive, Independent	Mr. Rakesh Nath	Non Executive, Independent

Auditors - M/S. Lodha & Co.

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Jsw investments pvt	20.27	Indusglobe multivent	15.66
Jsl ltd	8.86	Glebe trading privat	8.86
Virtuous tradecorp p	5.22	Danta enterprises pv	5.22
Life insurance corp	4.91	Jsw ltd	3.76
Reliance capital tru	1.94	Handa tarini jindal	1.52

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
06 Jun 2018	Jsw Steel Limited	Sell	6111000.00
06 Jun 2018	Jsw Steel Coated Products Limited	Buy	4655000.00
06 Jun 2018	Amba River Coke Limited	Buy	1456000.00
31 Jul 2017	PRASHANT JAIN	Buy	2500000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Adani Power	HOLD	SU	H	CESC	BUY	None	None
India Grid Trust	BUY	SP	M	JSW Energy	HOLD	SP	M
NTPC	BUY	SP	L	Power Grid Corp of India	BUY	SO	L
PTC India	BUY	None	None	Tata Power Co	BUY	SP	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Power

Adani Power, Adani Transmission, CESC, India Grid Trust, JSW Energy, NTPC, PTC India, Power Grid Corp of India, Tata Power Co

Recent Research

Date	Company	Title	Price (INR)	Recos
27-Jul-18	CESC	Flat quarterly performance; demerger key; <i>Result Update</i>	952	Buy
26-Jul-18	Tata Power Company	Tata Communication sale drives PAT; triggers aplenty; <i>Result Update</i>	71	Buy
26-Jul-18	India Grid Trust	Strong show; acquisitions on track; <i>Result Update</i>	96	Buy

Distribution of Ratings / Market Cap

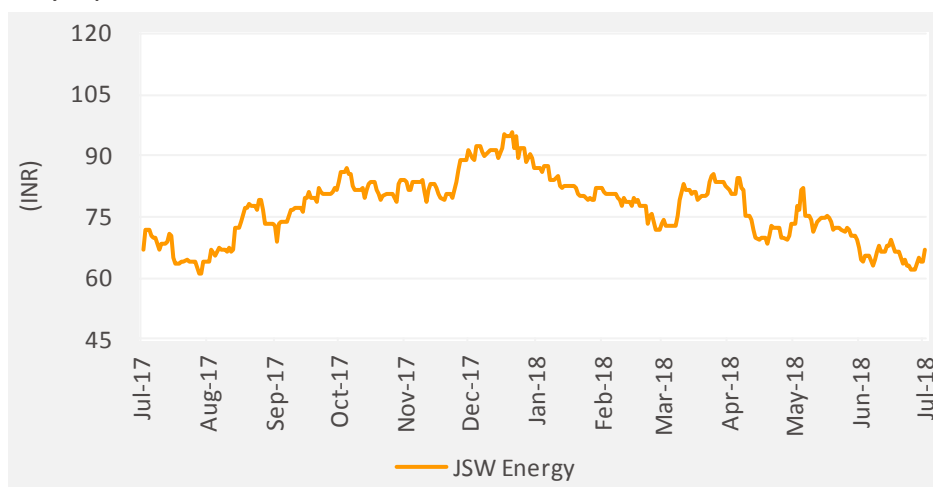
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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