

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	JSW IN
Equity Shares (m)	1,640
M.Cap.(INRb)/(USDb)	118.8 / 1.7
52-Week Range (INR)	79 / 35
1, 6, 12 Rel. Per (%)	8/32/-3
12M Avg Val (INR M)	151

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	82.7	76.1	83.6
EBITDA	29.6	28.1	28.7
Adj. PAT	8.3	7.9	9.6
EBITDA Margin (%)	35.7	36.9	34.3
Cons. Adj. EPS (INR)	5.1	4.8	5.9
EPS Gr. (%)	20.0	-5.8	22.2
BV/Sh. (INR)	71.0	74.2	77.0

Ratios

Net D:E	0.8	0.6	0.5
RoE (%)	7.1	6.6	7.7
RoCE (%)	7.8	7.2	7.8
Payout (%)	19.7	31.3	51.2

Valuations

P/E (x)	14.2	15.1	12.4
P/BV (x)	1.0	1.0	0.9
EV/EBITDA(x)	7.3	6.9	6.3
Div. Yield (%)	1.4	2.1	4.1

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	74.9	74.9	74.9
DII	6.9	8.3	8.8
FII	6.0	5.9	7.2
Others	12.2	11.0	9.1

FII Includes depository receipts

CMP: INR72 TP: INR84 (+16%) Buy

Lower merchant volumes impact performance

Healthy cash flow generation; strong debt reduction

- JSW Energy (JSWE)'s results reflect the impact of lower merchant sales volumes due to subdued merchant prices. However, this was partly offset by operational efficiency measures. At the consolidated level, EBITDA was down 5% YoY at INR6.0b.
- Debt reduction continues, with net debt (incl. acceptances) coming in at INR73.4b (v/s INR98.1b at the end of FY20). Interest cost has also decreased 27% YoY. Furthermore, FCF generation would remain strong given ~80% of JSWE's capacity is tied up in long-term power purchase agreements (PPAs). **Maintain Buy, with TP of INR84/sh.**

S/A performance impacted by lower merchant sales volumes

- JSWE's 3QFY21 EBITDA was down 5% YoY to INR6.0b (in-line), weighed by lower merchant volumes, partly offset by operational efficiencies. Short-term sales volumes were down 42% YoY to 312MUs. Interest costs decreased 8% QoQ / 27% YoY to INR1.9b (est. INR2.1b) on account of debt reduction and lower borrowing costs. Adjusted PAT was down 4% YoY to INR1.2b (est. in-line). Last year's numbers contain adjustments for DTL revaluation and gains on restructuring of the JPVL loan.
- Hydro generation was down 4% YoY, but EBITDA was up 15% YoY to INR2b, on the back of higher incentives. EBITDA at Barmer was down 9% YoY to INR2.5b.
- Net debt (including acceptances) reduced to INR73.4b (v/s INR98.1b at the end of FY20). Receivables reduced significantly to INR16.9b from INR21.8b at the end of 1H.

Management commentary – plans to add 1.9GW of renewable

- For the SECI 810 MW project, the company expects the power sale agreement (PSA) for 550MW to be signed in 4Q, with another 270MW set to be signed in FY22. The project would be completed within 24 months of the PSA being signed.
- The co. also plans to set up a 1.1GW capacity for its group captive to meet its RPO obligations. The co. hopes to finalize the terms of the same and expects the project to get completed by FY23. For the group captive, 220–250MW of capacity would be solar and the remaining 800–850MW would be wind.

Healthy cash flow generation, with large tied-up capacity; maintain Buy

- JSWE has taken its first big step toward Renewable with the Letter of Authority (LOA) for SECI's 810MW blended project and plans to set up 1.1GW renewable capacity for its captive. However, with the PSA yet to be signed, we have not baked in the same in our nos. Nonetheless, debt reduction for the co. has been strong, with a reduction in receivables and the full receipt of money from JSPL – a positive.

- ~80% of JSWE's 4.4GW current capacity is tied up in long-term PPAs, which generates strong free cash flows. Furthermore, the co. expects this to increase to 87% with its tie-up with Dolvi. Interest cost savings and operational efficiencies have also helped partly offset lower merchant volumes. We **maintain Buy, raising our TP to INR84/sh** (earlier INR73/sh), led by the higher value of its stake in JSW Steel and factoring in strong debt reduction.

Quarterly performance (consolidated) – INR m

Y/E March	FY20				FY21				FY20	FY21E	FY21 3QE	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	24,122	21,186	19,486	17,934	18,052	19,386	16,089	22,562	82,727	76,088	18,833	-15
YoY Change (%)	2.2	-12.8	-19.5	-6.8	-25.2	-8.5	-17.4	25.8			-3.3	
Total Expenditure	16,029	11,838	13,106	12,186	10,596	10,148	10,044	17,241	53,159	48,029	12,791	-21
EBITDA	8,093	9,348	6,380	5,748	7,455	9,238	6,044	5,321	29,569	28,059	6,042	0
Margins (%)	33.5	44.1	32.7	32.1	41.3	47.7	37.6	23.6	35.7	36.9	32.1	
Depreciation	2,913	2,943	2,932	2,893	2,895	2,916	2,916	3,026	11,681	11,753	2,950	-1
Interest	2,698	2,722	2,611	2,480	2,404	2,072	1,912	1,990	10,511	8,377	2,114	-10
Other Income	518	1,133	676	542	816	610	504	618	2,870	2,548	624	-19
PBT before EO expense	3,000	4,816	1,513	917	2,973	4,860	1,720	923	10,247	10,476	1,602	7
Extra-Ord expense	0	0	-2,656	0	0	0	0	0	-2,656	0	0	
PBT	3,000	4,816	4,170	917	2,973	4,860	1,720	923	12,904	10,476	1,602	7
Tax	883	1,338	125	26	787	1,364	338	130	2,372	2,619	384	
Rate (%)	29.4	27.8	3.0	2.8	26.5	28.1	19.7	14	18.4	25.0	24.0	
MI and Associates	-327	-51	103	-193	53	-25	147	-175	-468	0	21	
Reported PAT	2,444	3,530	3,941	1,084	2,132	3,521	1,235	969	10,999	7,857	1,197	3
Adj PAT	2,444	3,530	1,285	1,084	2,132	3,521	1,235	969	8,343	7,857	1,197	3
YoY Change (%)	6.6	12	-12	2,702	-13	0	-4	-11	20	-6	-7	

Source: MOFSL, Company

Key performance parameters – generation and PLF

		FY19				FY20				FY21			YoY %	QoQ %
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q		
Ratnagiri	MU	2,032	1,559	1,969	1,793	1,954	1,781	1,753	1,705	1,385	1,434	1,686	-3.8	17.6
	Deemed PLF %	85.0	64.0	83.7	80.0	81.7	73.7	80.8	79.0	73.0	59.0	64.2		
Vijaynagar	MU	960	905	1,002	649	662	701	802	593	405	559	557	-30.5	-0.4
	Deemed PLF %	55.0	52.0	57.0	37.0	38.2	40.1	45.9	34.0	23.0	32.0	21.2		
Barmer	MU	1,651	1,531	1,457	1,377	1,379	1,281	1,271	1,346	1,492	1,719	1,632	28.4	-5.1
	Deemed PLF %	86.0	85.0	79.5	86.0	80.8	60.0	82.3	83.0	84.0	80.0	62.1		
Hydro	MU	1,443	2,675	689	397	1,868	2,926	730	429	1,632	2,913	704	-3.6	-75.8
	Deemed PLF %	50.7	94.0	24.2	14.0	66.3	102.7	25.6	15.1	57.3	102.0	26.8		
Total		6,086	6,670	5,117	4,216	5,867	6,701	4,556	4,073	4,914	6,625	4,579	0.5	-30.9

Source: MOFSL, Company



Conference call takeaways

- For the SECI 810 MW project, a PSA for 550MW would be signed in 4Q, with another 270MW PPA set to be signed in FY22. The project would be completed within 24 months of the PSA being signed.
- The co. also plans to set up 1.1GW capacity for its group captive to meet its RPO obligations. The co. hopes to finalize the terms of the same and expects the project to be completed by FY23. For the group captive, 220–250MW of capacity would be solar and the remaining 800–850MW would be wind.
- The overall capex for the 1.8–1.9GW of renewable capacity would be in the range of INR100–110b.

- 82% capacity is now tied up in LT PPAs, which would rise to 87% with further tie-ups at the Ratnagiri plant. Post the PPAs with Dolvi, the Ratnagiri plant would be left with only 55MW of open capacity.
- Over the next 2–3 years, the co. expects the Vijayanagar plant to be fully tied up with opportunities for RTC supply.
- The co. has recovered the entire loan amount from JSPL.

Valuation and view

- JSWE has taken its first big step toward Renewable with the Letter of Authority (LOA) for SECI's 810MW blended project and plans to set up 1.1GW renewable capacity for its captive. However, with the PSA yet to be signed, we have not baked in the same in our nos. Nonetheless, debt reduction for the co. has been strong, with a reduction in receivables and the full receipt of money from JSPL – a positive.
- ~80% of JSWE's 4.4GW current capacity is tied up in long-term PPAs, which generates strong free cash flows. Furthermore, the co. expects this to increase to 87% with its tie-up with Dolvi. Interest cost savings and operational efficiencies have also helped partly offset lower merchant volumes. We **maintain Buy, raising our TP to INR84/sh** (earlier INR73/sh), led by the higher value of its stake in JSW Steel and factoring in strong debt reduction.

Exhibit 1: SOTP valuation

	FY20	FY21E	FY22E
NPV of PPAs	165,219	158,733	151,719
Merchant capacity	23,475	23,475	23,475
Jaigarh Power Transco	2,853	2,853	2,853
JSW Steel	20,619	20,619	20,619
Total value	212,166	205,680	198,666
Less: Net Debt	98,083	74,309	61,098
Equity value	116,693	131,371	137,567
No. of shares (mn)	1,640	1,640	1,640
Value per share (INR/sh)	71	80	84

Source: MOFSL, Company

Financials and valuations

Income statement							(INR m)
Y/E March	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	82,634	80,490	91,376	82,727	76,088	83,580	90,013
Change (%)	-15.9	-2.6	13.5	-9.5	-8.0	9.8	7.7
EBITDA	33,244	27,625	28,531	29,569	28,059	28,679	29,739
% of Net Sales	40.2	34.3	31.2	35.7	36.9	34.3	33.0
Deprn. & Amortization	9,692	9,661	11,637	11,681	11,753	11,825	11,905
EBIT	23,552	17,965	16,894	17,888	16,306	16,855	17,835
Net Interest	16,848	14,559	11,924	10,511	8,377	7,584	6,144
Other income	2,170	4,650	3,680	2,870	2,548	3,330	3,259
PBT after EO	8,875	3,876	8,650	12,904	10,476	12,601	14,950
Tax	2,690	2,532	2,124	2,372	2,619	3,150	3,738
Rate (%)	30.3	65.3	24.6	18.4	25.0	25.0	25.0
Reported PAT	6,185	1,344	6,526	10,531	7,857	9,451	11,213
Minority and Associates	-106	564	-426	-468	0	-150	-150
Adjusted PAT	6,290	4,959	6,951	8,343	7,857	9,601	11,363
Change (%)	-51.5	-21.2	40.2	20.0	-5.8	22.2	18.4

Balance sheet							(INR m)
	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	16,280	16,401	16,409	16,419	16,419	16,419	16,419
Reserves	87,405	94,697	101,814	100,037	105,335	109,915	116,258
Net Worth	103,685	111,097	118,222	116,456	121,754	126,334	132,677
Total Loans	158,803	136,452	119,225	107,531	97,531	81,531	63,531
Deferred Tax Liability	5,801	4,280	4,561	3,705	4,438	5,320	6,367
Capital Employed	268,312	251,789	241,888	227,453	223,584	212,997	202,336
Gross Block	206,625	210,352	211,303	211,717	213,517	215,317	217,318
Less: Accum. Deprn.	18,167	27,977	39,456	50,988	62,740	74,565	86,469
Net Fixed Assets	188,457	182,376	171,847	160,729	150,777	140,752	130,849
Capital WIP	5,269	2,935	4,000	3,913	3,613	3,613	3,612
Investments	13,599	20,782	21,083	10,990	10,990	10,990	10,990
Curr. Assets	72,115	54,718	55,933	69,088	74,823	73,731	73,169
Inventories	5,967	5,355	4,547	6,396	6,254	6,412	6,165
Account Receivables	21,828	11,512	14,278	21,032	15,634	17,174	17,263
Cash and Bank Balance	10,032	6,479	5,458	9,448	23,222	20,433	20,028
Others	34,288	31,372	31,650	32,213	29,713	29,713	29,713
Curr. Liability & Prov.	17,577	15,420	17,373	23,665	23,016	22,487	22,681
Account Payables	5,877	5,652	4,719	6,903	6,254	5,725	5,919
Provisions & Others	11,700	9,768	12,654	16,762	16,762	16,762	16,762
Net Curr. Assets	54,538	39,298	38,560	45,423	51,806	51,244	50,487
Appl. of Funds	268,312	251,789	241,888	227,453	223,584	212,997	202,336

Financials and valuations

Ratios

	2017	2018	2019	2020	2021E	2022E	2023E
Basic (INR)							
EPS	3.8	3.0	4.2	5.1	4.8	5.9	6.9
Cash EPS	9.7	8.9	11.3	12.2	12.0	13.1	14.2
BV/Share	63.2	67.7	72.1	71.0	74.2	77.0	80.9
DPS	2.0	2.0	1.0	1.0	1.5	3.0	3.0
Payout (%)	52.1	66.1	23.6	19.7	31.3	51.2	43.3
Valuation (x)							
P/E	18.8	23.9	17.1	14.2	15.1	12.4	10.4
Cash P/E	7.4	8.1	6.4	5.9	6.0	5.5	5.1
P/BV	1.1	1.1	1.0	1.0	1.0	0.9	0.9
EV/EBITDA	8.0	9.0	8.1	7.3	6.9	6.3	5.4
Dividend Yield (%)	2.8	2.8	1.4	1.4	2.1	4.1	4.1
Return Ratios (%)							
RoE	6.3	4.6	6.1	7.1	6.6	7.7	8.8
RoCE (post-tax)	8.6	7.7	7.5	7.8	7.2	7.8	8.4
RoC (post-tax)	6.9	2.8	6.1	7.3	6.5	7.2	8.0
Working Capital Ratios							
Fixed Asset Turnover (x)	0.4	0.4	0.5	0.5	0.5	0.6	0.7
Asset Turnover (x)	0.3	0.3	0.4	0.4	0.3	0.4	0.4
Debtor (Days)	96	52	57	93	75	75	70
Inventory (Days)	26	24	18	28	30	28	25
Leverage Ratio (x)							
Net Debt/EBITDA	4.5	4.7	4.0	3.3	2.6	2.1	1.5
Debt/Equity	1.4	1.2	1.0	0.8	0.6	0.5	0.3

Cash flow statement

	2017	2018	2019	2020	2021E	2022E	2023E
(INR m)							
EBITDA	33,244	27,625	28,531	29,569	28,059	28,679	29,739
FX gain/loss	0	0	-9	0	0	0	0
WC	6,929	11,796	-3,266	-7,743	7,391	-2,226	352
Others	740	1,472	1,395	746	0	0	0
Direct taxes (net)	-2,387	-1,556	-2,007	-1,751	-1,886	-2,268	-2,691
CF from Op. Activity	38,526	39,338	24,644	20,820	33,564	24,185	27,400
Capex	-3,715	-1,208	-2,335	-1,210	-1,500	-1,800	-2,000
FCFF	34,811	38,131	22,310	19,611	32,064	22,385	25,400
Interest income	810	2,701	2,338	2,101	0	0	0
Investments in subs/assoc.	0	0	0	0	0	0	0
Others	-3,966	-4,709	-494	2,122	2,548	3,330	3,259
CF from Inv. Activity	-6,871	-3,216	-491	3,013	1,048	1,530	1,259
Share capital	62	733	51	54	0	0	0
Borrowings	-5,289	-24,906	-13,503	-7,070	-10,000	-16,000	-18,000
Finance cost	-16,796	-14,318	-11,453	-10,621	-8,377	-7,584	-6,144
Dividend	-3,927	-1,185	-43	-1,979	-2,460	-4,920	-4,920
Others	0	0	0	0	0	0	0
CF from Fin. Activity	-25,949	-39,676	-24,948	-19,616	-20,837	-28,504	-29,064
(Inc)/Dec in Cash	5,706	-3,553	-794	4,217	13,774	-2,789	-405
Opening balance	4,327	10,032	6,479	5,458	9,448	23,222	20,433
Closing balance (as per B/S)	10,033	6,479	5,685	9,676	23,222	20,433	20,028

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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