

Estimate change



TP change

Rating change

Bloomberg	JSW IN
Equity Shares (m)	1,640
M.Cap.(INRb)/(USD\$b)	96.3 / 1.3
52-Week Range (INR)	80 / 35
1, 6, 12 Rel. Per (%)	1/12/-17
12M Avg Val (INR M)	106

### Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	82.7	76.1	84.7
EBITDA	29.6	27.6	28.7
Adj. PAT	8.3	7.7	9.2
EBITDA Margin (%)	35.7	36.3	33.8
Cons. Adj. EPS (INR)	5.1	4.7	5.6
EPS Gr. (%)	20.0	-7.9	20.3
BV/Sh. (INR)	71.0	73.1	76.2

### Ratios

Net D:E	0.8	0.7	0.5
RoE (%)	7.1	6.5	7.5
RoCE (%)	7.8	7.2	7.9
Payout (%)	19.7	53.3	44.3

### Valuations

P/E (x)	11.5	12.5	10.4
P/BV (x)	0.8	0.8	0.8
EV/EBITDA(x)	6.6	6.5	5.7
Div. Yield (%)	1.7	4.3	4.3
FCF Yield (%)	20.4	26.1	27.0

### Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	74.9	74.9	74.9
DII	8.3	9.4	9.0
FII	5.9	6.8	6.7
Others	11.0	9.0	9.5

FII Includes depository receipts

**CMP: INR59**
**TP: INR73 (+25%)**
**Buy**

## Performance impacted by lower merchant sales

### Cash flow generation healthy; Debt reduction continues

- JSW Energy's (JSWE) 2QFY21 results reflect the impact of lower merchant sales volumes on the back of drop in power demand and merchant prices. However, this was partly offset by operational efficiency measures. At consolidated level, EBITDA was down 1% YoY to INR9.2b.
- Net debt (excl. acceptances) continued reducing (by ~INR8.2b during the quarter). Interest cost has also decreased 24% YoY. Further, FCF generation is expected to be robust as ~80% of JSWE's capacity is under long-term PPAs. **Maintain Buy with TP of INR73/share.**

### S/A performance impacted by lower merchant sales

- 2QFY21 EBITDA was down 1% YoY to INR9.2b (v/s est. INR8.9b) on lower merchant volumes, partly offset by operational efficiencies. Short-term sales volumes were down 85% YoY to 110MUs. Interest cost fell 14%/24% QoQ/YoY to INR2.1b (v/s est. INR2.4b) due to debt reduction and lower borrowing costs. Reported PAT was flat YoY at INR3.5b (v/s est. INR3.4b).
- Hydro generation was flat YoY while EBITDA was up 4% YoY at INR5.1b. EBITDA at Barmer was down 9% YoY at INR2.5b.
- Net debt (excl. acceptances) reduced to INR76.7b (v/s INR89.5b at end-FY20). Receivables are elevated at INR21.8b but are 3% lower on YoY basis.

### Management commentary highlights – Receivables have decreased

- For the SECI 810 MW project, the company expects the PSA to be signed by end-FY21. The project would be completed in 24 months post the PSA signing and would be set up in Tamil Nadu (connectivity approvals have been received). Solar capacity will be ~15-20% of the capacity mix.
- The company plans to achieve ~10GW capacity over the next five years with 1-1.5GW capacity addition every year. Subsequently, JSWE expects the share of renewables to increase from 35% to 65-70% in its capacity mix.

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

- JSWE has taken its first big step toward Renewables with the LOA for SECI's 810MW blended project. However, with PSA yet to be signed, we do not bake in the same in our numbers. We expect equity IRRs to be in the range of 13-14% for the project, leading to possible marginal increase in our valuation (~INR2-3/share), if successful.
- ~80% of JSWE's 4.4GW capacity is under long-term PPAs, which generate strong free cash flows. These tied-up PPAs contribute ~95% to the company's EBITDA. Further, interest cost savings and operational efficiencies have helped to partly offset lower merchant volumes. We raise our FY21/FY22E estimates by 12%/7% on account of these measures. **Maintain Buy and raise our TP to INR73/share** (earlier INR64/share), broadly led by higher value of its stake in JSW Steel.

## Quarterly performance (consolidated) – INR m

Y/E March	FY20				FY21				FY20	FY21E	FY20 2QE	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	24,122	21,186	19,486	17,934	18,052	19,386	18,833	19,800	82,727	76,070	19,455	0
YoY Change (%)	2.2	-12.8	-19.5	-6.8	-25.2	-8.5	-3.3	10.4			-8.2	
Total Expenditure	16,029	11,838	13,106	12,186	10,596	10,148	12,791	14,894	53,159	48,429	10,510	-3
EBITDA	8,093	9,348	6,380	5,748	7,455	9,238	6,042	4,905	29,569	27,641	8,946	3
Margins (%)	33.5	44.1	32.7	32.1	41.3	47.7	32.1	24.8	35.7	36.3	46.0	
Depreciation	2,913	2,943	2,932	2,893	2,895	2,916	2,950	2,992	11,681	11,753	2,961	-2
Interest	2,698	2,722	2,611	2,480	2,404	2,072	2,157	2,052	10,511	8,685	2,362	-12
Other Income	518	1,133	676	542	816	610	624	598	2,870	2,648	836	-27
PBT before EO expense	3,000	4,816	1,513	917	2,973	4,860	1,559	460	10,247	9,851	4,459	9
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	1,559	460	12,904	9,851	4,459	9
Tax	883	1,338	125	26	787	1,364	374	-161	2,372	2,364	1,115	
Rate (%)	29.4	27.8	3.0	2.8	26.5	28.1	24.0	-35	18.4	24.0	25.0	
MI and Associates	-327	-51	103	-193	53	-25	55	-283	-468	-200	-24	
Reported PAT	2,444	3,530	3,941	1,084	2,132	3,521	1,130	904	10,999	7,687	3,368	5
Adj PAT	2,444	3,530	1,285	1,084	2,132	3,521	1,130	904	8,343	7,687	3,368	5
YoY Change (%)	6.6	12	-12.1	2,702	-13	0	-12.1	-17	20.0	-7.9	-5	

Source: MOFSL, Company

## Exhibit 1: Key performance parameters – Generation and PLF

		FY19				FY20				FY21		YoY %	QoQ %
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q		
Ratnagiri	MU	2,032	1,559	1,969	1,793	1,954	1,781	1,753	1,705	1,385	1,434	-19.5	3.5
	Deemed PLF %	85.0	64.0	83.7	80.0	81.7	73.7	80.8	79.0	73.0	59.0		
Vijaynagar	MU	960	905	1,002	649	662	701	802	593	405	559	-20.3	38.0
	Deemed PLF %	55.0	52.0	57.0	37.0	38.2	40.1	45.9	34.0	23.0	32.0		
Barmer	MU	1,651	1,531	1,457	1,377	1,379	1,281	1,271	1,346	1,492	1,719	34.2	15.2
	Deemed PLF %	86.0	85.0	79.5	86.0	80.8	60.0	82.3	83.0	84.0	80.0		
Hydro	MU	1,443	2,675	689	397	1,868	2,926	730	429	1,632	2,913	-0.4	78.5
	Deemed PLF %	50.7	94.0	24.2	14.0	66.3	102.7	25.6	15.1	57.3	102.0		
<b>Total</b>		<b>6,086</b>	<b>6,670</b>	<b>5,117</b>	<b>4,216</b>	<b>5,867</b>	<b>6,701</b>	<b>4,556</b>	<b>4,073</b>	<b>4,914</b>	<b>6,625</b>	<b>-1.1</b>	<b>34.8</b>

Source: MOFSL, Company



## Conference call takeaways

- PSA for SECI's 810MW hybrid project would be signed by end-FY21 and the project should be completed after 24 months. The project will be set up in Tamil Nadu and the company has received connectivity approvals. Solar capacity will be ~15-20% of the capacity mix. PLFs for Solar would be 26-27%, while wind would be 33-35%. The company expects to get near normative (mid-teens) returns on the same.
- The company plans to achieve ~10GW capacity over the next five years with 1-1.5GW capacity addition every year. Subsequently, JSWE expects the share of Renewables to increase from 35% to 65-70% in its capacity mix.
- Spot merchant market is currently benign and tariffs are not viable. The company does not see trend improvement in merchant prices in FY21.
- Ind Barath (700MW) continues to see delays in approval process due to creditor litigation.
- Power supplied to group captive consumers has moved to a job works model, leading to lower revenue as well as fuel costs.
- PPA for Kutehr (240MW) would be signed in FY21.
- JSW Steel's Dolvi would be completed by FY21; the PPA would also be signed then.

- The company is identifying locations to set up solar parks or wind turbines. This is because it is handy while bidding for SECI and evaluating JSW Group captive opportunities. JSW Group will require 1-1.2GW of renewable capacity under RPO in the future.

#### Exhibit 2: JSWE's portfolio of assets

S.N.	Asset	Location		Fuel	Capacity (MW)	LT. PPA (MW)			Open (MW)	PLF (%)			
		State	Region			free	PPA	Total		FY18	FY19	FY20	FY21E
1	Vijaynagar	K'taka	SR	Imp. coal	860	316	316	544	53.3	50.5	39.7	38.0	
2	Ratnagiri	Maha.	WR	Imp. coal	1,200	873	873	328	64.0	76.3	74.9	72.0	
3	RajWest	Raj.	NR	Lignite	1,080	1,080	1,080		72.5	70.8	62.1	60.0	
4	Baspa-II	HP	NR	Hydro	300	36	264	300	50.9	50.0	60.0	50.0	
5	K. Wangtoo	HP	NR	Hydro	1,000	120	880	1,000	52.2	52.0	60.2	50.0	
					<b>4,440</b>	<b>156</b>	<b>3,413</b>	<b>3,569</b>	<b>872</b>	<b>56.1</b>	<b>56.6</b>	<b>54.5</b>	<b>50.4</b>

Source: MOFSL, Company

#### Valuation and view

- JSWE has taken its first big step toward renewables with the LOA for SECI's 810MW blended project. However, with PSA yet to be signed, we are not baking in the same in our numbers. We expect equity IRRs to range between 13-14% for the project, leading to possible marginal increase in our valuations (~INR2-3/share), if successful.
- We estimate 8% decline in PAT for FY21, building in lower merchant volumes/realizations. However, strong FCF generation would continue, aided by tied-up capacities. ~80% of JSWE's 4.4GW capacity is under long-term PPAs, which generate strong free cash flows. Furthermore, these tied-up PPAs contribute ~95% to the company's EBITDA. Maintain Buy, with TP of INR73/share.

#### Exhibit 3: SOTP Valuation

	MW	FY20	FY21E
NPV of PPAs	3,569	157,983	151,345
Merchant capacity	872	30,503	30,503
Jaigarh Power Transco		2,853	2,853
JSW Steel		17,454	17,454
<b>Total value</b>		<b>208,791</b>	<b>202,153</b>
Less: Net Debt		98,083	83,126
Add: Advance to JSPL		2,610	2,610
<b>Equity value</b>		<b>113,318</b>	<b>119,027</b>
No. of shares (mn)		1,640	1,640
<b>Value per share (INR/sh)</b>			<b>73</b>

Source: MOFSL, Company

## Financials and Valuations

Income statement								(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
<b>Net Sales</b>	<b>98,245</b>	<b>82,634</b>	<b>80,490</b>	<b>91,376</b>	<b>82,727</b>	<b>76,070</b>	<b>84,739</b>	<b>91,965</b>
Change (%)	4.7	-15.9	-2.6	13.5	-9.5	-8.0	11.4	8.5
<b>EBITDA</b>	<b>40,261</b>	<b>33,244</b>	<b>27,625</b>	<b>28,531</b>	<b>29,569</b>	<b>27,641</b>	<b>28,673</b>	<b>30,045</b>
% of Net Sales	41.0	40.2	34.3	31.2	35.7	36.3	33.8	32.7
Deprn. & Amortization	8,543	9,692	9,661	11,637	11,681	11,753	11,825	11,905
<b>EBIT</b>	<b>31,719</b>	<b>23,552</b>	<b>17,965</b>	<b>16,894</b>	<b>17,888</b>	<b>15,888</b>	<b>16,848</b>	<b>18,141</b>
Net Interest	14,981	16,848	14,559	11,924	10,511	8,685	7,942	6,434
Other income	2,351	2,170	4,650	3,680	2,870	2,648	2,996	3,078
PBT after EO	20,589	8,875	3,876	8,650	12,904	9,851	11,903	14,785
Tax	5,563	2,690	2,532	2,124	2,372	2,364	2,857	3,549
Rate (%)	27.0	30.3	65.3	24.6	18.4	24.0	24.0	24.0
<b>Reported PAT</b>	<b>15,026</b>	<b>6,185</b>	<b>1,344</b>	<b>6,526</b>	<b>10,531</b>	<b>7,487</b>	<b>9,046</b>	<b>11,237</b>
Minority and Associates	553	-106	564	-426	-468	-200	-200	-200
<b>Adjusted PAT</b>	<b>12,974</b>	<b>6,290</b>	<b>4,959</b>	<b>6,951</b>	<b>8,343</b>	<b>7,687</b>	<b>9,246</b>	<b>11,437</b>
Change (%)	-6.2	-51.5	-21.2	40.2	20.0	-7.9	20.3	23.7

Balance sheet								(INR m)
	2016	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	16,268	16,280	16,401	16,409	16,419	16,419	16,419	16,419
Reserves	80,773	87,405	94,697	101,814	100,037	103,524	108,570	115,807
<b>Net Worth</b>	<b>97,041</b>	<b>103,685</b>	<b>111,097</b>	<b>118,222</b>	<b>116,456</b>	<b>119,943</b>	<b>124,989</b>	<b>132,226</b>
Total Loans	166,607	158,803	136,452	119,225	107,531	97,531	81,531	63,531
Deferred Tax Liability	4,341	5,801	4,280	4,561	3,705	4,296	5,010	5,897
<b>Capital Employed</b>	<b>268,002</b>	<b>268,312</b>	<b>251,789</b>	<b>241,888</b>	<b>227,453</b>	<b>221,431</b>	<b>211,091</b>	<b>201,116</b>
Gross Block	204,963	206,625	210,352	211,303	211,717	213,517	215,317	217,318
Less: Accum. Deprn.	8,443	18,167	27,977	39,456	50,988	62,740	74,565	86,469
<b>Net Fixed Assets</b>	<b>196,520</b>	<b>188,457</b>	<b>182,376</b>	<b>171,847</b>	<b>160,729</b>	<b>150,777</b>	<b>140,752</b>	<b>130,849</b>
Capital WIP	3,206	5,269	2,935	4,000	3,913	3,613	3,613	3,612
Investments	9,369	13,599	20,782	21,083	10,990	10,990	10,990	10,990
<b>Curr. Assets</b>	<b>69,834</b>	<b>72,115</b>	<b>54,718</b>	<b>55,933</b>	<b>69,088</b>	<b>72,668</b>	<b>71,905</b>	<b>71,068</b>
Inventories	6,358	5,967	5,355	4,547	6,396	6,252	5,804	5,795
Account Receivables	29,063	21,828	11,512	14,278	21,032	19,799	18,573	15,117
Cash and Bank Balance	4,327	10,032	6,479	5,458	9,448	14,404	15,315	17,943
Others	30,086	34,288	31,372	31,650	32,213	32,213	32,213	32,213
<b>Curr. Liability &amp; Prov.</b>	<b>17,386</b>	<b>17,577</b>	<b>15,420</b>	<b>17,373</b>	<b>23,665</b>	<b>23,015</b>	<b>22,566</b>	<b>21,802</b>
Account Payables	7,330	5,877	5,652	4,719	6,903	6,252	5,804	5,039
Provisions & Others	10,057	11,700	9,768	12,654	16,762	16,762	16,762	16,762
<b>Net Curr. Assets</b>	<b>52,448</b>	<b>54,538</b>	<b>39,298</b>	<b>38,560</b>	<b>45,423</b>	<b>49,654</b>	<b>49,338</b>	<b>49,267</b>
<b>Appl. of Funds</b>	<b>268,001</b>	<b>268,312</b>	<b>251,789</b>	<b>241,888</b>	<b>227,453</b>	<b>221,431</b>	<b>211,091</b>	<b>201,116</b>

## Financials and Valuations

### Ratios

	2016	2017	2018	2019	2020	2021E	2022E	2023E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>7.9</b>	<b>3.8</b>	<b>3.0</b>	<b>4.2</b>	<b>5.1</b>	<b>4.7</b>	<b>5.6</b>	<b>7.0</b>
Cash EPS	13.1	9.7	8.9	11.3	12.2	11.9	12.8	14.2
BV/Share	59.2	63.2	67.7	72.1	71.0	73.1	76.2	80.6
DPS	2.0	2.0	2.0	1.0	1.0	2.5	2.5	2.5
Payout (%)	25.3	52.1	66.1	23.6	19.7	53.3	44.3	35.8
<b>Valuation (x)</b>								
P/E	8.8	15.3	19.4	13.8	11.5	12.5	10.4	8.4
Cash P/E	5.3	6.0	6.6	5.2	4.8	4.9	4.6	4.1
P/BV	1.2	0.9	0.9	0.8	0.8	0.8	0.8	0.7
EV/EBITDA	6.9	7.4	8.2	7.4	6.6	6.5	5.7	4.7
Dividend Yield (%)	2.9	3.4	3.4	1.7	1.7	4.3	4.3	4.3
<b>Return Ratios (%)</b>								
RoE	15.1	6.3	4.6	6.1	7.1	6.5	7.5	8.9
RoCE (post-tax)	12.6	8.6	7.7	7.5	7.8	7.2	7.9	8.6
RoIC (post-tax)	11.5	6.9	2.8	6.1	7.3	6.3	7.1	8.2
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	0.5	0.4	0.4	0.5	0.5	0.5	0.6	0.7
Asset Turnover (x)	0.4	0.3	0.3	0.4	0.4	0.3	0.4	0.5
Debtor (Days)	108	96	52	57	93	95	80	60
Inventory (Days)	24	26	24	18	28	30	25	23
<b>Leverage Ratio (x)</b>								
Net Debt/EBITDA	4.0	4.5	4.7	4.0	3.3	3.0	2.3	1.5
Debt/Equity	1.7	1.4	1.2	1.0	0.8	0.7	0.5	0.3

### Cash flow statement

	2016	2017	2018	2019	2020	2021E	2022E	2023E
<b>(INR m)</b>								
<b>EBITDA</b>	<b>40,261</b>	<b>33,244</b>	<b>27,625</b>	<b>28,531</b>	<b>29,569</b>	<b>27,641</b>	<b>28,673</b>	<b>30,045</b>
FX gain/loss	0	0	0	-9	0	0	0	0
WC	-4,902	6,929	11,796	-3,266	-7,743	726	1,226	2,700
Others	3,006	740	1,472	1,395	746	0	0	0
Direct taxes (net)	-2,989	-2,387	-1,556	-2,007	-1,751	-1,773	-2,142	-2,661
<b>CF from Op. Activity</b>	<b>35,376</b>	<b>38,526</b>	<b>39,338</b>	<b>24,644</b>	<b>20,820</b>	<b>26,594</b>	<b>27,756</b>	<b>30,084</b>
Capex	-349	-3,715	-1,208	-2,335	-1,210	-1,500	-1,800	-2,000
<b>FCFF</b>	<b>35,027</b>	<b>34,811</b>	<b>38,131</b>	<b>22,310</b>	<b>19,611</b>	<b>25,094</b>	<b>25,956</b>	<b>28,084</b>
Interest income	883	810	2,701	2,338	2,101	0	0	0
Investments in subs/assoc.	-35,206	0	0	0	0	0	0	0
Others	2,472	-3,966	-4,709	-494	2,122	2,648	2,996	3,078
<b>CF from Inv. Activity</b>	<b>-32,201</b>	<b>-6,871</b>	<b>-3,216</b>	<b>-491</b>	<b>3,013</b>	<b>1,148</b>	<b>1,196</b>	<b>1,078</b>
Share capital	0	62	733	51	54	0	0	0
Borrowings	2,768	-5,289	-24,906	-13,503	-7,070	-10,000	-16,000	-18,000
Finance cost	-14,891	-16,796	-14,318	-11,453	-10,621	-8,685	-7,942	-6,434
Dividend	-4,102	-3,927	-1,185	-43	-1,979	-4,100	-4,100	-4,100
Others	0	0	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-16,224</b>	<b>-25,949</b>	<b>-39,676</b>	<b>-24,948</b>	<b>-19,616</b>	<b>-22,785</b>	<b>-28,042</b>	<b>-28,534</b>
<b>(Inc)/Dec in Cash</b>	<b>-13,049</b>	<b>5,706</b>	<b>-3,553</b>	<b>-794</b>	<b>4,217</b>	<b>4,956</b>	<b>911</b>	<b>2,628</b>
Opening balance	17,376	4,327	10,032	6,479	5,458	9,448	14,404	15,315
<b>Closing balance</b>	<b>4,327</b>	<b>10,033</b>	<b>6,479</b>	<b>5,685</b>	<b>9,676</b>	<b>14,404</b>	<b>15,315</b>	<b>17,943</b>

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

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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