

Estimate change	↔
TP change	↑
Rating change	↔

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Bloomberg	JSW IN
Equity Shares (m)	1,640
M.Cap.(INRb)/(USDb)	411.6 / 5.5
52-Week Range (INR)	258 / 45
1, 6, 12 Rel. Per (%)	49/233/404
12M Avg Val (INR M)	573

Financials & Valuations (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	69.2	85.9	96.3
EBITDA	29.1	30.1	35.5
Adj. PAT	8.0	9.3	11.2
EBITDA Margin (%)	42.0	35.0	36.9
Cons. Adj. EPS (INR)	4.9	5.7	6.8
EPS Gr. (%)	-4.7	16.9	20.8
BV/Sh. (INR)	88.5	92.1	96.8
Ratios			
Net D:E	0.5	0.6	0.8
RoE (%)	6.1	6.3	7.2
RoCE (%)	7.3	7.3	7.6
Payout (%)	41.2	35.3	29.2
Valuations			
P/E (x)	51.6	44.2	36.6
P/BV (x)	2.8	2.7	2.6
EV/EBITDA(x)	16.7	16.7	15.3
Div. Yield (%)	0.8	0.8	0.8

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	74.7	74.7	74.9
DII	6.5	7.2	9.4
FII	5.9	5.6	6.8
Others	13.0	12.6	9.0

FII Includes depository receipts

CMP: INR251 **TP: INR180 (-28%)**

Sell

Miss on account of higher operating and finance costs

Scaling up in Renewables, but current valuations capture upcoming plans

- JSW Energy (JSWE)'s results reflect the impact of higher operating and finance costs, leading to lower profitability. At the consolidated level, EBITDA was down 6% YoY to INR7.0b, 7% below our estimate of INR7.5b.
- The co. has set its sights on improving its Renewables footprint, with plans to reach a total of 10GW of installed capacity by FY25 (v/s 4.5GW currently). PPAs have been signed for SECI IX (810MW) and captive projects (958MW). However, even as we build in the successful commissioning of 2.2GW of RE projects over the next 2–3 years, the current price rightly factors this in. We roll forward our valuation to FY24, with revised **Target Price of INR180/sh** (earlier: INR130/sh). We maintain our Sell rating on the stock.

Profit miss on higher-than-expected O&M expenses and interest costs

- JSWE's 1QFY21 EBITDA was down 6% YoY to INR7.0b (v/s our estimate of INR7.5b). The miss on our no. was on account of higher-than-expected other expenses. Other expenses were up 55% YoY to INR1.3b, weighed by higher repair and O&M costs.
- Interest costs increased 13% QoQ / 21% YoY to INR2.9b (est. INR1.9b) on account of an INR0.9b prepayment and certain write-offs on INR-denominated loans related to JSW Hydro. Other income was up 62% YoY to INR1.3b on higher late payment surcharge (LPS) income. PAT was down 6% YoY to INR2.0b (our est: INR2.6b).
- Hydro generation was down 15% YoY, with EBITDA for the segment declining 14% YoY to INR2.8b. EBITDA at Barmer declined 15% YoY to INR2.3b (v/s INR2.8b in the previous year).
- Net debt increased to INR65.7b (v/s INR62.1b at end-FY21). Receivables declined YoY to INR19b (v/s INR27b in 1QFY21), but were higher than FY21 levels (INR13b).

Management commentary highlights

- The co. has entered into a framework agreement with Fortescue for collaboration on and the scoping of green hydrogen. With scalability, lower power costs, and improved efficiency, JSWE expects the cost of green hydrogen to come down and be lower than grey hydrogen over the next 5–7 years.
- JSWE has also taken in-principle approval from the board for the reorganization of its Green (hydrogen) and Grey (thermal) Power businesses. A sub-committee would evaluate the potential options and viability for the separation of these businesses.
- JSWE has signed PPAs for SECI IX (810MW) and captive projects (958MW). The co. expects SECI X (450MW) to be signed in 2Q. Works at Kutehr are ongoing, and the co expects the project to be commissioned by 2QFY25.

Current price bakes in upcoming projects; maintain Sell

- The co. has plans to build a presence in the Renewables space, with plans to reach 10GW of overall capacity by FY25 (v/s 4.5GW currently). With 1) a healthy balance sheet position (net debt/equity: 0.5x) and 2) JSWE's current capacity generating strong cash flows (~87% of JSWE's 4.5GW is under long-term PPAs), the company does have room to grow. However, even as we build in the successful commissioning of 2.2GW of RE projects over the next 2-3 years, the current price rightly factors this in. Its plans for green hydrogen are in the initial stages, and with little clarity on capital commitments and production, we do not account for it.
- We roll forward our valuations to FY24 and raise our SOTP-based Target Price to INR180/sh (earlier: INR130sh), capturing a) the addition of Kutehr (240MW), and b) an increase in value for JSWE's stake in JSW Steel. However, with the sharp run-up in the stock over the past three months, the possible value-accretion is captured more than adequately. Accordingly, we reiterate our Sell rating on the stock.

Quarterly performance (consolidated) – INR m

Y/E March	FY21				FY22				FY21	FY22E	FY22	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	18,052	19,386	16,089	15,696	17,275	24,244	20,335	24,070	69,222	85,924	21,497	-20
YoY Change (%)	-25.2	-8.5	-17.4	-12.5	-4.3	25.1	26.4	53.4			19.1	
Total Expenditure	10,596	10,148	10,044	9,368	10,292	14,360	13,756	17,463	40,156	55,871	13,978	-26
EBITDA	7,455	9,238	6,044	6,328	6,984	9,884	6,579	6,607	29,066	30,054	7,519	-7
Margins (%)	41.3	47.7	37.6	40.3	40.4	40.8	32.4	27.4	42.0	35.0	35.0	
Depreciation	2,895	2,916	2,916	2,942	2,882	3,053	3,054	3,231	11,669	12,221	3,032	-5
Interest	2,404	2,072	1,912	2,569	2,901	1,892	1,912	2,005	8,957	8,710	1,908	52
Other Income	816	610	504	445	1,320	717	534	416	2,375	2,787	786	68
PBT before EO expense	2,973	4,860	1,720	1,261	2,521	5,656	2,147	1,787	10,814	12,110	3,365	-25
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	2,973	4,860	1,720	1,261	2,521	5,656	2,147	1,787	10,814	12,110	3,365	-25
Tax	787	1,364	338	270	466	1,244	472	481	2,759	2,664	740	
Rate (%)	26.5	28.1	19.7	21.4	18.5	22.0	22.0	26.9	25.5	22.0	22.0	
MI and Associates	53	-25	147	-74	43	-1	148	-40	101	150	41	
Reported PAT	2,132	3,521	1,235	1,066	2,011	4,412	1,527	1,346	7,955	9,296	2,584	-22
Adj PAT	2,132	3,521	1,235	1,066	2,011	4,412	1,527	1,346	7,955	9,296	2,584	-22
YoY Change (%)	-13	0	-4	-2	-6	25	24	26	-5	17	21	

Source: MOFSL, Company

Exhibit 1: Key performance parameters – generation and PLF

		FY20				FY21				FY22	YoY %	QoQ %
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
Ratnagiri	MU	1,954	1,781	1,753	1,705	1,385	1,434	1,686	1,172	1,410	1.8	20.3
Deemed PLF	%	81.7	73.7	80.8	79.0	73.0	59.0	78.0	55.0	74.0		
Vijaynagar	MU	662	701	802	593	405	559	557	680	733	81.0	7.8
Deemed PLF	%	38.2	40.1	45.9	38.0	31.0	32.0	35.0	44.0	43.0		
Barmer	MU	1,379	1,281	1,271	1,346	1,492	1,719	1,632	1,526	1,573	5.4	3.1
Deemed PLF	%	80.8	60.0	82.3	83.0	84.0	80.0	81.0	78.0	79.0		
Hydro	MU	1,868	2,926	730	429	1,632	2,913	704	380	1,394	-14.6	266.8
Deemed PLF	%	66.3	102.7	25.6	15.1	58.0	102.0	25.0	14.0	49.0		
Total		5,867	6,701	4,556	4,073	4,914	6,625	4,579	3,758	5,110	4.0	36.0

Source: MOFSL, Company



Conference call takeaways

- The co. has entered into a framework agreement with Fortescue for collaboration on and the scoping of green hydrogen. With scalability, lower power costs, and improved efficiency, JSWE expects the cost of green hydrogen to come down and be lower than grey hydrogen over the next 5–7 years.
- JSWE has also taken in-principle approval from the board for the reorganization of its Green (hydrogen) and Grey (thermal) Power businesses. A sub-committee would evaluate the potential options and viability for the separation of these businesses.
- JSWE has signed PPAs for SECI IX (810MW) and captive projects (958MW). The co. expects SECI X (450MW) to be signed in 2Q. The co. has placed an order for solar modules and signed term sheets for wind turbines. JSWE expects solar panels for 225MW of projects to start coming in from Sep and expects to receive all the panels by Dec.
- Works at Kutehr are ongoing, and the co expects the project to be commissioned by 2QFY25. The co. has spent INR6.5b on the project.
- JSWE received approval for a capacity uprating by 91MW to 1,091MW at Karcham Wangtoo. Of this, operations for 45MW of capacity have commenced; operations for the remaining capacity would commence over the next fiscal.
- The co has replaced loans with a USD-denominated green bond (USD707m) with a coupon rate of 4.125% for a 10-year tenure. The all-in cost would be 8% in INR terms.

Valuation and view

- The co. has plans to build a presence in the Renewables space, with plans to reach 10GW of overall capacity by FY25 (v/s 4.5GW currently). With 1) a healthy balance sheet position (net debt/equity: 0.5x) and 2) JSWE's current capacity generating strong cash flows (~87% of JSWE's 4.5GW is under long-term PPAs), the company does have room to grow. However, even as we build in the successful commissioning of 2.2GW of RE projects over the next 2–3 years, the current price rightly factors this in. Its plans for green hydrogen are in the initial stages, and with little clarity on capital commitments and production, we do not account for it.
- We roll forward our valuations to FY24 and raise our SOTP-based Target Price to INR180/sh (earlier: INR130sh), capturing a) the addition of Kutehr (240MW), and b) an increase in value for JSWE's stake in JSW Steel. However, with the sharp run-up in the stock over the past three months, the possible value-accretion is captured more than adequately. Accordingly, we reiterate our Sell rating on the stock.

Exhibit 2: SOTP Valuation

	MW	FY22E	FY23E	FY24E	Remarks
NPV of PPAs	3,837	179,287	170,387	161,030*	DCF based
Merchant capacity	604	27,158	27,158	27,158*	@ INR45m/MW
Jaigarh Power Transco		3,423	3,423	3,423*	6x EV/EBITDA
SECI Tranche IX	810	34,992	58,603	58,309*	DCF based
SECI Tranche X	450	18,261	32,473	32,327*	DCF based
Renewables for captive	958	18,874	36,329	74,435*	DCF based
Kutehr	240	14,182	20,274	27,835*	DCF based
JSW Steel		52,949	52,949	52,949*	10% discount to our TP of INR840/sh
Total value	349,126	401,596	437,466		
Less: Net Debt	91,032	131,262	151,978		
Equity value	258,094	270,334	285,488		
Add: Dividends to be distributed	1,643	6,560	9,840		
No. of shares (m)	1,640	1,640	1,640		
Value per share (INR/sh)	158	169	180		

Source: MOSL, Company

Story in charts

Exhibit 3: JSW Energy has diversified mix 4.5GW of installed capacity

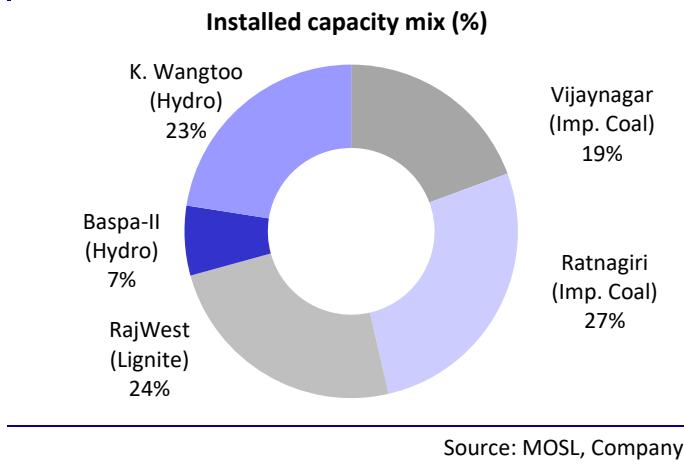


Exhibit 4: ~95% of EBITDA comes from stable/predictable segments, given large tied-up PPAs

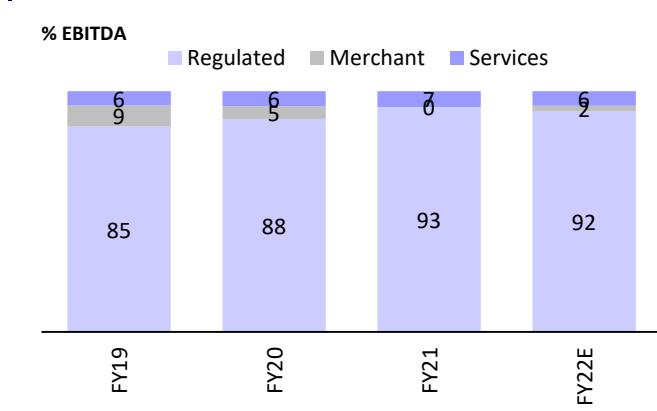


Exhibit 5: Co is well-placed to explore growth opportunities, given under-levered balance sheet

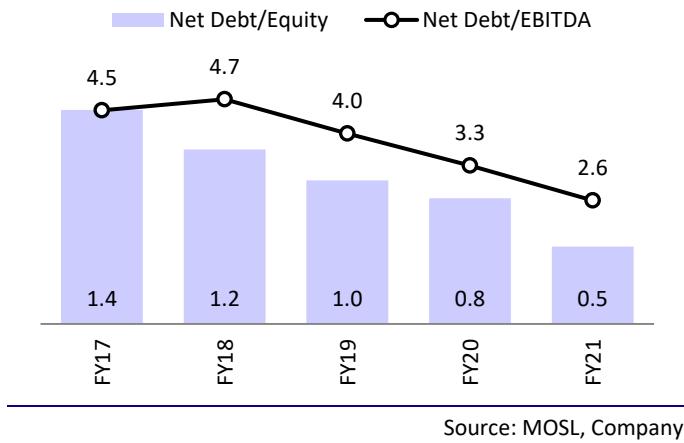


Exhibit 6: JSWE targets 10GW of installed capacity, led by Renewables

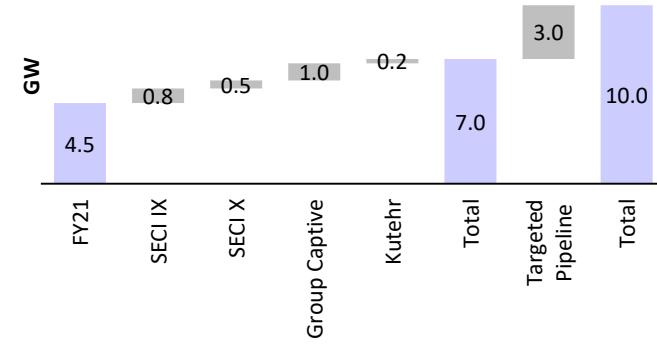


Exhibit 7: Build-in additions for upcoming RE projects, with installed capacity of ~7GW by FY24...

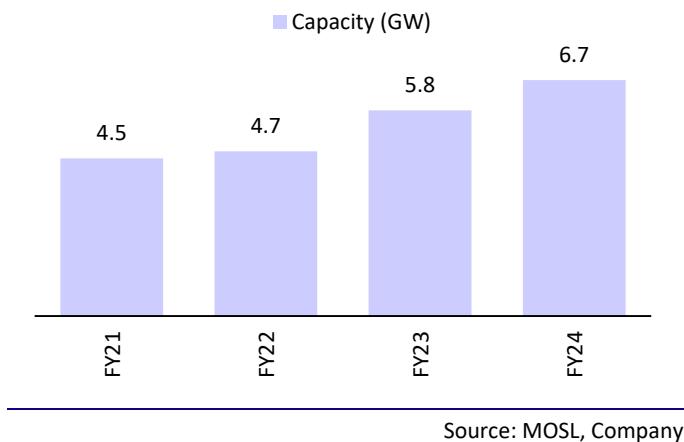


Exhibit 8: ...resulting in 20% PAT CAGR over FY21–24E (INR b)

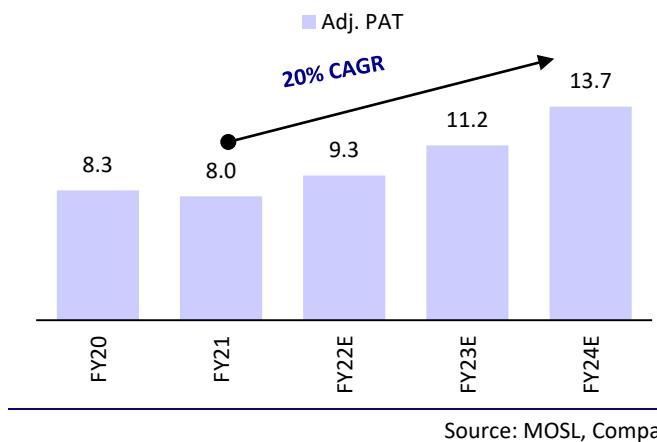


Exhibit 9: Valuations rise; rightly reflect benefit of planned upcoming additions



Financials and valuations

Income statement									(INR m)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E	
Net Sales	82,634	80,490	91,376	82,727	69,222	85,924	96,257	1,08,810	
Change (%)	-15.9	-2.6	13.5	-9.5	-16.3	24.1	12.0	13.0	
EBITDA	33,244	27,625	28,531	29,569	29,066	30,054	35,528	43,550	
% of Net Sales	40.2	34.3	31.2	35.7	42.0	35.0	36.9	40.0	
Depn. & Amortization	9,692	9,661	11,637	11,681	11,669	12,221	13,479	15,671	
EBIT	23,552	17,965	16,894	17,888	17,396	17,833	22,049	27,879	
Net Interest	16,848	14,559	11,924	10,511	8,957	8,710	10,031	12,645	
Other income	2,170	4,650	3,680	2,870	2,375	2,987	2,504	2,483	
PBT after EO	8,875	3,876	8,650	12,904	10,814	12,110	14,522	17,717	
Tax	2,690	2,532	2,124	2,372	2,759	2,664	3,195	3,898	
Rate (%)	30.3	65.3	24.6	18.4	25.5	22.0	22.0	22.0	
Reported PAT	6,185	1,344	6,526	10,531	8,055	9,446	11,327	13,819	
Minority and Associates	-106	564	-426	-468	101	150	100	100	
Adjusted PAT	6,290	4,959	6,951	8,343	7,955	9,296	11,227	13,719	
Change (%)	-51.5	-21.2	40.2	20.0	-4.7	16.9	20.8	22.2	

Balance sheet									(INR m)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E	
Share Capital	16,280	16,401	16,409	16,419	16,423	16,423	16,423	16,423	
Reserves	87,405	94,697	101,814	100,037	128,647	1,34,563	1,42,410	1,52,750	
Net Worth	103,685	111,097	118,222	116,456	145,070	1,50,986	1,58,833	1,69,173	
Total Loans	158,803	136,452	119,225	107,531	87,094	1,00,852	1,40,852	1,63,852	
Deferred Tax Liability	5,801	4,280	4,561	3,705	6,081	6,566	7,147	7,855	
Capital Employed	268,312	251,789	241,888	227,453	238,158	2,58,566	3,07,195	3,41,443	
Gross Block	206,625	210,352	211,303	211,717	212,627	2,26,320	2,98,090	3,49,183	
Less: Accum. Deprn.	18,167	27,977	39,456	50,988	62,657	74,794	88,272	1,03,943	
Net Fixed Assets	188,457	182,376	171,847	160,729	149,969	1,51,527	2,09,818	2,45,240	
Capital WIP	5,269	2,935	4,000	3,913	4,728	36,945	26,532	21,808	
Investments	13,599	20,782	21,083	10,990	33,402	33,402	33,402	33,402	
Curr. Assets	72,115	54,718	55,933	69,088	69,866	57,721	58,002	62,412	
Inventories	5,967	5,355	4,547	6,396	3,951	5,179	5,802	6,558	
Account Receivables	21,828	11,512	14,278	21,032	13,012	12,948	13,186	14,906	
Cash and Bank Balance	10,032	6,479	5,458	9,448	11,634	9,819	9,590	11,873	
Others	34,288	31,372	31,650	32,213	41,268	29,775	29,425	29,075	
Curr. Liability & Prov.	17,577	15,420	17,373	23,665	26,205	27,427	26,958	27,818	
Account Payables	5,877	5,652	4,719	6,903	6,099	7,062	6,593	7,453	
Provisions & Others	11,700	9,768	12,654	16,762	20,106	20,365	20,365	20,365	
Net Curr. Assets	54,538	39,298	38,560	45,423	43,660	30,294	31,044	34,595	
Appl. of Funds	268,312	251,789	241,888	227,453	238,158	2,58,566	3,07,195	3,41,443	

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Basic (INR)								
EPS	3.8	3.0	4.2	5.1	4.9	5.7	6.8	8.4
Cash EPS	9.7	8.9	11.3	12.2	12.0	13.1	15.1	17.9
BV/Share	63.2	67.7	72.1	71.0	88.5	92.1	96.8	103.2
DPS	2.0	2.0	1.0	1.0	2.0	2.0	2.0	2.0
Payout (%)	52.1	66.1	23.6	19.7	41.2	35.3	29.2	23.9
Valuation (x)								
P/E	65.3	82.8	59.1	49.2	51.6	44.2	36.6	29.9
Cash P/E	25.7	28.1	22.1	20.5	20.9	19.1	16.6	14.0
P/BV	4.0	3.7	3.5	3.5	2.8	2.7	2.6	2.4
EV/EBITDA	16.8	19.6	18.4	17.2	16.7	16.7	15.3	12.9
Dividend Yield (%)	0.8	0.8	0.4	0.4	0.8	0.8	0.8	0.8
Return Ratios (%)								
RoE	6.3	4.6	6.1	7.1	6.1	6.3	7.2	8.4
RoCE (post-tax)	8.6	7.7	7.5	7.8	7.3	7.3	7.6	8.2
RoIC (post-tax)	6.9	2.8	6.1	7.3	6.8	7.9	8.5	8.7
Working Capital Ratios								
Fixed Asset Turnover (x)	0.4	0.4	0.5	0.5	0.5	0.6	0.5	0.4
Asset Turnover (x)	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Debtor (Days)	96	52	57	93	69	55	50	50
Inventory (Days)	26	24	18	28	21	22	22	22
Leverage Ratio (x)								
Net Debt/EBITDA	4.5	4.7	4.0	3.3	2.6	3.0	3.7	3.5
Debt/Equity	1.4	1.2	1.0	0.8	0.5	0.6	0.8	0.9

Cash flow statement

Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
EBITDA								
33,244	27,625	28,531	29,569	29,066	30,054	35,528	43,550	
FX gain/loss	0	0	-9	0	0	0	0	0
WC	6,929	11,796	-3,266	-7,743	8,663	11,310	-980	-1,266
Others	740	1,472	1,395	746	1,101	0	0	0
Direct taxes (net)	-2,387	-1,556	-2,007	-1,751	-1,831	-2,180	-2,614	-3,189
CF from Op. Activity	38,526	39,338	24,644	20,820	36,999	39,183	31,933	39,095
Capex	-3,715	-1,208	-2,335	-1,210	-4,354	-45,996	-61,356	-46,369
FCFF	34,811	38,131	22,310	19,611	32,644	-6,812	-29,423	-7,274
Interest income	810	2,701	2,338	2,101	1,707	0	0	0
Others	-3,966	-4,709	-494	2,122	-7,678	2,987	2,504	2,483
CF from Inv. Activity	-6,871	-3,216	-491	3,013	-10,326	-43,008	-58,853	-43,886
Share capital	62	733	51	54	10	0	0	0
Borrowings	-5,289	-24,906	-13,503	-7,070	-15,082	14,000	40,000	23,000
Finance cost	-16,796	-14,318	-11,453	-10,621	-8,433	-8,710	-10,031	-12,645
Dividend	-3,927	-1,185	-43	-1,979	-1,643	-3,280	-3,280	-3,280
Others	0	0	-226	-228	660	0	0	0
CF from Fin. Activity	-25,949	-39,676	-25,174	-19,844	-24,487	2,010	26,689	7,075
(Inc)/Dec in Cash	5,706	-3,553	-1,020	3,989	2,186	-1,815	-230	2,284
Opening balance	4,327	10,032	6,479	5,458	9,448	11,634	9,819	9,590
Closing balance (as per B/S)	10,033	6,479	5,459	9,448	11,634	9,819	9,590	11,873

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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