

JSW Energy Limited

August 27, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debentures	300.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total	300.00 (Rs. Three Hundred Crore Only)		

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating of long-term instruments of JSW Energy Limited (JEL) continues to derive strength from well-established and experienced promoter group having rich experience power industry. The rating also takes comfort of the firm offtake arrangement for majority of the operational capacity thus providing medium to long-term revenue visibility. The rating takes cognizance of JEL's operational performance, which witnessed moderation in FY21 (refers to the period April 1 to March 31) due to lower demand due to Covid'19 lockdown with gradual improvement witness during Q1FY22 (refers to the period April 1 to June 30) vis a vis Q1FY21.

However, the rating continues to be constrained by project implementation risk emanating from the envisaged capacity addition, which is significant in comparison to its existing portfolio of operational assets. CARE expects deterioration in leverage and coverage metrics of JEL in the medium term as a result of the capex plan. The rating strengths continue to be partially offset by volatility associated with fuel cost & foreign exchange rate and weak counter parties.

Rating Sensitivities

Positive factors - Factors that could lead to positive rating action/upgrade:

- Improvement in the financial risk profile with Total Debt to PBILDT below 3.00 times on sustained manner
- Significant improvement in counter party risk profile

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any significant cost overrun in envisaged capex plan
- Any significant deterioration in counter party risk profile
- Any increase in receivable days beyond 120 days on sustained manner

Detailed description of the key rating drivers

Key Rating Strengths

Well established and experienced promoter group in power industry

Incorporated in 1994, JEL is the holding company for JSW group's power business. As of March 31, 2021, JEL's consolidated operational capacity stood at 4.5 GW. The portfolio comprises primarily coal/ lignite based thermal as well as hydro power plants located in Karnataka, Maharashtra, Rajasthan, Himachal Pradesh and Andhra Pradesh with diverse off-takers (including discoms and group captive). JEL also has presence in intra-state power transmission and lignite mining business which are integral to its power business.

JEL has qualified, professional and experienced management team with vast experience in the power sector. JEL also provides operation & maintenance services for power plants of the group companies and project management services for the power plants being set up by the group.

Firm offtake arrangement for majority of the capacity providing medium to long-term revenue visibility

JEL has historically operated its power plants and sold power through a combination of long/medium-term power purchase agreements (PPAs) as well as on merchant basis. As on March, 2021, JEL had long term PPAs for about 86% capacity while the balance is being sold on short term/merchant basis. Out of the total capacity under long term PPA around 98% is under take or pay agreement ensuring pass-through of fuel cost and fixed charges & balance capacity is on fixed charges. The presence of a combination of long-term and short-term off-take arrangements provides JEL with some revenue visibility as well as opportunity to benefit from merchant tariffs, as and when they are attractive.

Reasonable operational performance amidst Covid'19 lockdown challenges

The Plant Load Factor (PLF) of all the plants (except JSW Energy (Barmer) Limited, rated CARE A+; Stable/ CARE A1+) of JEL had witnessed moderation in FY21 on account of lower demand. However, the PLF during Q1FY22 (refers to the period from April 1 to June 30) has indicated improvement from Q1FY21 level.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Key Rating Weaknesses

Significant project risk emanating from the envisaged capacity expansion

JEL, through its subsidiaries, is executing greenfield renewable energy power projects. The total capacity under construction is around 2.5 GW which is expected to be commissioned over a period of 3-4 years. Out of the total capacity under construction, 1.3 GW capacity will be tied up with a financially strong off-taker. The balance capacity power offtake is yet to be tied-up. Further, JSW Hydro Energy Limited is undertaking construction of 240 MW of hydro power project in Kutehr under its wholly-owned subsidiary JSW (Kutehr) Limited. The company is under finalization of Power Purchase Agreement with Haryana Discom.

Due to the substantial capex under implementation, the leverage profile as well as the coverage metrics of JEL is projected to deteriorate in the medium term. Any further debt funded capex/ acquisition or significant cost overrun in the under-implementation projects may impact the financial risk profile of JEL and thus will remain a rating sensitivity going forward.

Volatility associated with fuel cost and foreign exchange rate

JEL's power plant operations depend on imported coal (mainly from Indonesia and South Africa) for its Vijayanagar and Ratnagiri plants. Since most of the fuel procurement is linked to spot prices the profitability of the company is exposed to the volatility in international coal prices to the extent of open capacity. JEL varies the mix of Indonesian and South African coal to optimize the fuel cost. With the fuel cost being passes through in long term PPAs, the company's PBILDT margins are to a large extent isolated from fuel risk.

Counter party risk

JEL through its subsidiaries/associates has power off-take arrangement on long-term and short-term basis with Discoms in Rajasthan, Maharashtra, Himachal Pradesh, Punjab, Haryana, Uttar Pradesh and JSW group companies. As a result, the company's revenue visibility is exposed to the vagaries of financial risk profile of these discoms. With the PFC/REC liquidity support for the discoms during late FY21, JEL's receivables at consolidated level decreased from Rs. 2,715 crore as on June 30, 2020 to Rs. 1,902 crore as on June 30, 2021.

Liquidity - Adequate

JEL at consolidated level has free cash and cash equivalent of Rs. 1,142 crore as on March 31, 2021 coupled with unutilized fund based working capital limits of around 68% as on March 31, 2021 provides a liquidity support to a large extent towards annual debt obligations of around Rs. 2,000 crore in FY22. Overall gearing ratio of the company at consolidated level stood at 0.67 times as on March 31, 2021 providing sufficient headroom for the company to incur capex. Average collection days of the company remains stable at 67 days as on March 31, 2021. Furthermore, the operating cycle of the company continues to be negative as on March 31, 2021.

Analytical approach: Consolidated

Applicable Criteria

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non-financial Sector](#)

[Consolidation](#)

[Power Generation Projects](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Thermal Power Projects](#)

About the Company

Incorporated in 1994, JEL is a part of the JSW group headed by Mr. Sajjan Jindal. The JSW group has presence in various sectors, such as steel, power, cement, infrastructure, etc. JEL 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 the entire value chain of the power sector including power generation, power transmission, mining, power plant equipment manufacturing and power trading.

Brief Financials (Rs. crore)-Consolidated	FY20 (Audited)	FY21 (Audited)
Total operating income	8561.11	7133.19
PBILDT	3257.77	3139.00
PAT	1081.18	822.68
Overall gearing (times)	1.06	0.67
Interest coverage (times)	3.10	3.50

Note- Financials have been classified as per CARE's internal standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE121E07346	January 10, 2020	-	January 28, 2022	300.00	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (01-Jun-21) 2)CARE A+; Stable (01-Jun-21)	1)CARE A+; Stable (01-Sep-20) 2)CARE AA-; Stable (01-Jul-20) 3)CARE AA-(CWN) (23-Apr-20)	1)CARE AA-(CWN) (17-Oct-19) 2)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (31-Oct-18) 2)CARE AA-; Stable (05-Oct-18)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (05-Oct-18)
3.	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	1)Withdrawn (28-May-21)	1)CARE A1+ (01-Sep-20) 2)CARE A1+ (01-Jul-20) 3)CARE A1+ (CWN) (23-Apr-20)	1)CARE A1+ (CWN) (18-Dec-19) 2)CARE A1+ (17-Oct-19) 3)CARE A1+ (05-Jul-19)	1)CARE A1+ (05-Oct-18)
4.	Non-fund-based - ST-BG/LC	ST	-	-	1)Withdrawn (01-Jun-21) 2)CARE A1+ (01-Jun-21)	1)CARE A1+ (01-Sep-20)	1)CARE A1+ (CWN) (17-Oct-19) 2)CARE A1+	1)CARE A1+ (31-Oct-18) 2)CARE A1+ (05-Oct-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
						2)CARE A1+ (01-Jul-20) 3)CARE A1+ (CWN) (23-Apr-20)	(05-Jul-19)	
5.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (01-Jun-21) 2)CARE A+; Stable (01-Jun-21)	1)CARE A+; Stable (01-Sep-20) 2)CARE AA-; Stable (01-Jul-20) 3)CARE AA- (CWN) (23-Apr-20)	1)CARE AA- (CWN) (08-Jan-20) 2)CARE AA- (CWN) (17-Oct-19) 3)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (05-Oct-18)
6.	Fund-based - LT-Cash Credit	LT	-	-	1)CARE A+; Stable (01-Jun-21) 2)Withdrawn (01-Jun-21)	1)CARE A+; Stable (01-Sep-20) 2)CARE AA-; Stable (01-Jul-20) 3)CARE AA- (CWN) (23-Apr-20)	1)CARE AA- (CWN) (17-Oct-19) 2)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (31-Oct-18) 2)CARE AA-; Stable (05-Oct-18)
7.	Debentures-Non Convertible Debentures	LT	-	-	1)CARE A+; Stable (01-Jun-21) 2)Withdrawn (01-Jun-21)	1)CARE A+; Stable (01-Sep-20) 2)CARE AA-; Stable (01-Jul-20) 3)CARE AA- (CWN) (23-Apr-20)	1)CARE AA- (CWN) (08-Jan-20) 2)CARE AA- (CWN) (17-Oct-19) 3)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (05-Oct-18)

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8.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (08-Jan-20) 2)CARE AA-(CWN) (17-Oct-19) 3)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (05-Oct-18)
9.	Debentures-Non Convertible Debentures	LT	300.00	CARE A+; Stable	-	1)CARE A+; Stable (01-Sep-20) 2)CARE AA-; Stable (01-Jul-20) 3)CARE AA-(CWN) (23-Apr-20)	1)CARE AA-(CWN) (08-Jan-20)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-

Name of the Instrument	Detailed explanation
A. Financial covenants	EBITDA/interest cover > 1.5x Fixed asset coverage ratio > 1.2x
B. Non-financial negative covenants	
i. Put option	Available at every notch of downgrade below A, noticed within 21 calendar days of downgrade event

Annexure- 4: List of subsidiaries, associates and joint ventures of JEL getting consolidated

S.No.	Name of the company	Shareholding of JEL (%)
1	JSW Energy (Barmer) Limited	100
2	JSW Hydro Energy Limited	100
3	JSW Power Trading Company Limited	100
4	Jaigad PowerTransco Limited	74
5	JSW Energy (Raigarh) Limited	100
6	JSW Energy (Kutehr) Limited	100
7	JSW Solar Limited	100
8	JSW Electric Vehicles Private Limited	100
9	JSW Energy Natural Resources Mauritius Limited	100
10	JSW Energy Natural Resources South Africa Limited	100
11	Royal Bafokeng Capital (Pty) Limited	100
12	Mainsail Trading 55(Pty) Limited	100
13	South African Coal Mining Holdings Limited	69.44
14	SACM (Breyten) Proprietary Limited	69.44
15	South African Coal Mining Operations Proprietary Limited	69.44
16	Umlabu Colliery Proprietary Limited	69.44
17	Jigmining Operations No. 1 Proprietary Limited	69.44
18	Yomhlaba Coal Proprietary Limited	69.44
19	Toshiba JSW Power Systems Private Limited	22.52
20	Barmer Lignite Mining Company Limited	49.00
21	JSW Renewable Energy (Vijaynagar) Limited	100.00
22	JSW Renew Energy Limited	100.00

Annexure-5: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non-Convertible Debentures	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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