CARE Ratings
Professional Risk Opinion

JSW Energy Limited, JSW Energy (Barmer) Limited and JSW Hydro Energy Limited

December 18, 2019

JSW Energy Limited:
Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Commercial Paper Issue	700.00	**CARE A1+; Credit watch with Negative Implications [A One Plus; Credit watch with Negative Implications]**	**Placed on Credit watch with Negative Implications**

JSW Energy (Barmer) Limited:

Facilities	Amount (Rs. crore)	Rating	Rating Action
Commercial Paper Issue	100.00	**CARE A1+; Credit watch with Negative Implications [A One Plus; Credit watch with Negative Implications]**	**Placed on Credit watch with Negative Implications**

JSW Hydro Energy Limited

Facilities	Amount (Rs. crore)	Rating	Rating Action
Commercial Paper Issue	300.00	**CARE A1+; Credit watch with Negative Implications [A One Plus; Credit watch with Negative Implications]**	**Placed on Credit watch with Negative Implications**

CARE has placed the ratings of Commercial Paper issue of JSW Energy Limited (JEL), JSW Energy (Barmer) Limited and JSW Hydro Energy Limited on 'Credit watch with negative implications' on account of recent announcement of proposed acquisition of thermal power assets of GMR Kamalanga Energy Limited (GKEL, rated CARE D) which owns and operates a 1,050 MW thermal power plant in Odisha and approval of JEL's resolution plan submitted for Ind-Barath Energy (Utkal) Limited (IEUL, rated CARE D; Issuer Not Cooperating) by the Committee of Creditors. The closure of the transaction shall be subject to the receipt of necessary regulatory approvals and clearances from respective competent authorities.
CARE in light of the above events is engaging with management to understand its implications on overall financial risk profile of the company and its group/associate companies. As per the initial discussion with the management, CARE understands that these acquisitions might be largely debt funded. As a result of this, overall gearing ratio of the company at consolidated level might increase significantly from 0.78 times as on March 31, 2019.
CARE continues to take consolidated approach while arriving credit profile of JEL. Further, the credit risk profile of group/associate companies of JEL might be impacted in case of upstreaming of free cashflows or availing of additional debt at group/associate companies level.
CARE would be monitoring closely and evaluate the impact of the above developments on the credit quality of JEL and its group/associate companies and would take a view on the rating when the exact implications of the above are clear.

Detailed Rationale & Key Rating Drivers

The ratings of bank facilities & instruments of JSW Energy Limited (JEL) continues to derive strength from well established and highly experienced promoter group having rich experience power industry, long-term firm offtake arrangement of major operational capacity providing favourable medium to long-term revenue visibility, favourable debt coverage indicators and financial risk profile.
However, the rating strengths continue to be partially offset by volatility associated with fuel cost & foreign exchange rate and counter party risk.
Ability of JEL to maintain envisaged operational parameters amidst tepid domestic power sector and any major capital expenditure/large debt funded acquisition impacting overall financial risk profile of the company remains key rating sentivities.

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

Detailed description of the key rating drivers

Key Rating Strengths

Well established and highly experienced promoter group having rich experience power industry

Incorporated in 1994, JEL is the holding company for JSW group's power business. As of March 31, 2019 JSW group's consolidated operational capacity stood at 4.45 GW. In addition, JEL has set up (through a subsidiary) 165 km transmission line for transmission of power generated at Ratnagiri region and is engaged in power trading through its subsidiary.

JEL has qualified, professional and experienced management team with significant experience in the power sector. The company 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. JEL has successfully set up and is operating 860 MW thermal power plant at Vijaynagar, Karnataka, and a 1,200MW imported coal based plant at Ratnagiri, Maharashtra. The company, through a subsidiary owns and operates a 1,080 MW lignite based power plant in Barmer, Rajasthan. JEL has presence in renewable segment through operations of hydro project in Himachal Pradesh of capacity of 1,300 MW and 10 MW solar capacities across various locations.

In addition, the intra-state power transmission project, a 74:26 joint venture with MSETCL (through a subsidiary, Jaigad Power Transco Ltd. The project consists of 400 kV double circuit Jaigad – New Koyna (55 km) and Jaigad – Karad (110 km) lines for transmission of power generated at Ratnagiri plant (Maharashtra).

The company is also into mining business through its associate Barmer Lignite Mining Co. Ltd, (a 49:51 joint venture between JSW Energy (Barmer) Limited (JEBL) and Rajasthan State Mines and Minerals Ltd (RSMML)), commenced lignite mining from Kapurdi and Jalipa blocks in Rajasthan. BLMCL is a captive mine company for providing fuel to JEBL power plant at Barmer.

Long-term firm offtake arrangement of major operational capacity providing favourable medium to long-term revenue visibility

JEL has historically operated its power plants and sold power through a combination of long/medium-term PPAs as well as on merchant basis. As on June, 2019, JEL had long term PPAs for about 81% capacity while the balance is being sold on short term/merchant basis.

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.

During FY19 the company witnessed improvement in LT PPA mix to 80.4% (3,578.50 MW) as compared to 75.0% (3,328 MW) in FY18. The addition of 250 MW was PPAs being tied up with companies of JSW Group for Ratnagiri and Vijayanagar plant.

The O&M expenses of the company reduced to Rs. 18.70 lakh/MW in FY19 from Rs. 19.30 lakh/MW in FY18 due to adoption of re-engineering processes, optimization of work contracts and implementing best industry practices for equipment maintenance across plant locations resulting in lower store & spare consumptions.

Plant Load Factor (PLF) of Vijayanagar plant dipped in FY19 vis-à-vis FY18 due to lower short term power sales. Short term sales units dipped from 5,019 MUs in FY18 to 3,141 MUs in FY19 primarily on account of increase in long term PPA proportion to 100% at Karcham Wangtoo plant. However, the Ratnagiri plant exhibited improvement in PLF in FY19 vis-à-vis due to higher off-take from LT and ST customers.

Going forward ability of the company to maintain envisaged operational parameters amidst tepid domestic power sector remains key rating sensitivity.

Favourable debt coverage indicators and financial risk profile

Overall gearing ratio improved from 1.23 times as on March 31, 2018 to 0.78 times as n March 31, 2019 on account of reduction of debt. Total Debt to GCA of the company improved from 10.97 times in FY18 to 4.91 times in FY19 on account of higher gross cash accruals. During FY19 the company benefitted from increase in merchant tariffs in few months. Interest coverage ratio of the company improved to 2.73 times in FY19 as compared to 2.14 times in FY18 on account of lower interest & finance charges.

JEL expects to revive its Kutehr hydro project of capacity of 240 MW. The company has incurred around Rs. 280 crore as on date on the project. The company is in talks with Discoms for power off-take from project; post finalisation of it the project work will restart.

Going forward any major capital expenditure/large debt funded capital acquisition impacting overall financial risk profile of the company remains key rating sentivity.

Key Rating Weaknesses

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 & 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.

Volatility in foreign currency affects the profitability of the company to the extent of open capacity. In order to reduce the impact of rising imported coal prices, the company has secured approval from Ministry of Environment and Forests to blend domestic coal with imported coal upto 50% at Vijayanagar & Ratnagiri.

Counter party risk

JEL through its subsidiaries/associates has power off-take arrangement on long-term and short-term basis with Discoms in Rajasthan, Maharastra, 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 entities. The receivables value at consolidated level increased from Rs. 1,151.22 crore as on March 31, 2018 to Rs. 1,427.75 crore as on March 31, 2019 on account of delay in receipts from Rajasthan Discoms. . The receivables from these Discoms are generally received within stipulated time period. However, in case of any delay the company receives delayed payment charges.

Industry outlook

The all-India energy demand had witnessed a growth of 6.2% in FY18 to 1,213.33 BUs. The demand growth had improved as compared to previous years when it stood it 2.56% and 4.2% in FY17 and FY16 respectively. The overall power requirement was largely met by conventional power generation, which grew by 3.98% in FY18 (PY: 4.72%). Overall the demand supply gap stood marginal and stood at 0.7% (PY:0.7%) and 2.1% (PY:1.6%) for base and peak deficit respectively. Further during H1FY19 the base energy deficit contracted by 10 bps to 0.6% aided by 6.0% growth in power supply to 658 BU. The thermal power supply however increased by only 4.0% on YoY basis to 529.4 BU in H1FY19 primarily attributable to lower coal availability. Higher seasonal power demand coupled with lower coal availability has led to firmness in spot prices. There has been spurt in the short-term / spot prices, with average clearing price at IEX increasing from Rs. 2.72/ unit in trailing 12 months ended Sep'17 to Rs. 3.74/ unit in trailing 12 months ended Sep'18.

The outlook on thermal power is negative to stable. Subdued power demand, lack of visibility on long term PPAs, less access to coal at reasonable prices and weak discoms shall continue to weigh on the credit profile of generation companies in the near to medium term. Long term prospects of the thermal segment would be driven by improvement in the power demand, availability of long term PPAs and improvement in discoms financial and operational performance.

Liquidity: Superior

JEL at consolidated level has free cash and cash equivalent of Rs. 504.55 crore coupled with unutilized fund based working capital limits of Rs. 1,311 crore as on June 30, 2019 provides a liquidity support to a large extent. With gearing of 0.78 times as on March 31, 2019, JEL has sufficient gearing headroom to raise additional debt for its capex. Average collection days of the company improved from 76 days as on March 31, 2018 to 51 days as on March 31, 2019. Further, the operating cycle of the company continues to be negative as on March 31, 2019.

Analytical approach: Consolidated

Applicable Criteria

CARE's criteria on assigning Outlook to Credit Ratings
CARE's policy on Default Recognition
Factoring Linkages in Ratings
CARE's methodology for Short-term Instruments
Financial ratios – Non-Financial Sector
CARE's methodology for Power sector

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 the holding company for the JSW group's power business having operational capacity of 4.5GW (consolidated) as of March 31, 2019. The company 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.

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)	FY18 (A)	FY19 (A^)
Total operating income	8,360.61	9,537.49
PBILDT	3110.87	3253.02
PAT	84.91	684.49
Overall gearing (times)	1.23	0.78
Interest coverage (times)	2.14	2.73

A: Audited ^: Abridged financials

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March, 2025	2757.49	CARE AA-; Credit watch with Negative Implications
Non-fund-based - ST-BG/LC	-	-	-	3997.00	CARE A1+ -; Credit watch with Negative Implications
Fund-based - LT-Cash Credit	-	-	-	825.00	CARE AA-; Credit watch with Negative Implications
Debentures-Non Convertible Debentures	July 20, 2010 July 30, 2010 August 16, 2010	9.75%	July 20, 2020 July 30, 2020 August 16, 2020	1000.00	CARE AA-; Credit watch with Negative Implications
Debentures-Non Convertible Debentures	December 30, 2016	8.65%	December 30, 2022	500.00	CARE AA-; Credit watch with Negative Implications
Debentures-Non Convertible Debentures	September 20, 2017	8.40%	September 18, 2020	400.00	CARE AA-; Credit watch with Negative Implications
Commercial Paper	-	-	7 to 364 days	700.00	CARE A1+ -; Credit watch with Negative Implications

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	2757.49	CARE AA-; Credit watch with Negative Implications	1)CARE AA- (Under Credit watch with Negative Implications) (17-Oct-19) 2)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (31-Oct-18) 2)CARE AA-; Stable (05-Oct-18)	1)CARE AA-; Negative (08-Sep-17)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (05-Oct-18)	1)CARE AA-; Negative (08-Sep-17)
3.	Commercial Paper	ST	700.00	CARE A1+; Credit watch with Negative Implications	1)CARE A1+ (17-Oct-19) 2)CARE A1+ (05-Jul-19)	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (08-Sep-17)
4.	Non-fund-based - ST-BG/LC	ST	3997.00	CARE A1+; Credit watch with Negative Implications	1)CARE A1+ (Under Credit watch with Negative Implications) (17-Oct-19) 2)CARE A1+ (05-Jul-19)	1)CARE A1+ (31-Oct-18) 2)CARE A1+ (05-Oct-18)	1)CARE A1+ (08-Sep-17)
5.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA-; Credit watch with Negative Implications	1)CARE AA- (Under Credit watch with Negative Implications) (17-Oct-19) 2)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (05-Oct-18)	1)CARE AA-; Negative (08-Sep-17)
6.	Fund-based - LT-Cash Credit	LT	825.00	CARE AA-; Credit watch with Negative Implications	1)CARE AA- (Under Credit watch with Negative Implications) (17-Oct-19) 2)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (31-Oct-18) 2)CARE AA-; Stable (05-Oct-18)	1)CARE AA-; Negative (08-Sep-17)
7.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA-; Credit watch with Negative Implications	1)CARE AA- (Under Credit watch with Negative Implications) (17-Oct-19)	1)CARE AA-; Stable (05-Oct-18)	1)CARE AA-; Negative (08-Sep-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
					2)CARE AA-; Stable (05-Jul-19)		
8.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA-; Credit watch with Negative Implications	1)CARE AA- (Under Credit watch with Negative Implications) (17-Oct-19) 2)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (05-Oct-18)	1)CARE AA-; Negative (08-Sep-17)

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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