JSW Energy

March 16, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Long term Non-Convertible Debenture	500	CARE AA-; Negative [Double A minus ; Outlook: Negative]	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to derive strength from the promoter group and management having considerable experience in setting up and operating thermal power plants, presence of long term PPA (62% of consolidated capacity) thereby providing revenue visibility to the extent of power off-take agreements as well as steady operating assets (under Raj West Power Limited and Himachal Baspa Power Company Limited).

The ratings are, however constrained by exposure to merchant tariffs (which have remained soft for the last one year), as well as to volatile imported coal prices (which have increased substantially from Q2FY17) coupled with foreign exchange fluctuations.

The company's ability to obtain PPAs for the medium/ long term for the un-tied capacity (especially at Vijaynagar Power Plant), envisaged realization on merchant power sales as well as maintain profitability amid increase in imported coal prices along with fluctuation in foreign exchange are the key rating sensitivities. Also, the company's ability to manage its capital structure and liquidity in the backdrop of its inorganic growth plans will also remain crucial.

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Outlook: Negative

CARE believes that JSWEL's financial profile is likely to deteriorate in the medium term on account of decline in profitability (at the standalone level) due to decline in merchant power rates, delay in signing of long term PPA in case of the Vijaynagar plant and higher imported coal prices. We acknowledge the fact that Vijaynagar has managed to secure short term PPA of 650MW till May 2017 at lucrative rates. However, post May 2017, PPAs for Vijaynagar plant (at the desired rates) remains the key risk. Moreover, the inorganic growth plans of the company would entail cash outflow which may requiring additional borrowings. However, JSWEL's gearing levels (on standalone basis) is comfortable providing financial flexibility and is cushioned to some extent on account of steady operating and cash generating assets (Raj West Power Limited and Himachal Baspa Power Company Limited). Any success in entering into PPA for the offtake of power from its Vijaynagar Plant at remunerative rates and decline in imported coal prices would improve the financial profile of JSWEL.

Key Rating Strengths

Experienced promoters in setting up and operating thermal power plants: Incorporated in 1994, JSWEL is the holding company for JSW group's power business. As of March 31, 2016, JSW group's consolidated operational capacity stood at 4.5GW.

Presence of Long term and short term PPAs: JSWEL 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 December 31, 2016, JSWEL had long term PPAs for about 62% while the balance is being sold on merchant basis. JSWEL has tied up short term PPA with Karnataka DISCOMs for 650MW (Valid till May 2017) at lucrative rates.

Key Rating Weaknesses

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

Exposure to Merchant tariffs: JSWEL's 38% of capacity is on short-term/ merchant basis. While the short PPA with Karnataka DISCOMs has mitigated the risk to certain extent, nevertheless, the company remains exposed to soft merchant tariffs which can impact profitability.

Increase in imported coal prices coupled with forex fluctuations: The company depends on imported coal (from Indonesia and South Africa) to fuel 2060 MW of it capacity. Imported coal prices have increased substantially from Q2FY16. Since the company has entered into fix price contracts (for short term PPAs) , increase in coal prices with forex volatility impacts profitability.

Analytical approach: JSWEL has operating power assets at the standalone level and also is the holding company for other operating power assets. Based on this, CARE has analysed both at the standalone and consolidated level.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Infrastructure Sector Ratings
Financial ratios – Non-Financial Sector
CARE's methodology for Power sector

About the Company
Incorporated in 1994, JSWEL 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. JSWEL is the holding company for the JSW group's power business having operational capacity of 4.5GW (consolidated) as of March 31, 2016. 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.

During FY16, JSWEL (Consolidated) reported total operating income of Rs.10049.8 crore and PAT of Rs.1446.2 crore as against total operating income of Rs. 9527.4 crore and PAT of Rs1377.1 crore during FY15.

During FY16, JSWEL (Standalone) reported total operating income of Rs.6112.5 crore and PAT of Rs.965.9 crore as against total operating income of Rs. 6549.7 crore and PAT of Rs. 994.6 crore during FY15.

During 9MFY17, JSWEL (Consolidated) reported total operating income of Rs. 6401.4 crore and PAT of Rs.605.3 crore as against total operating income of Rs. 7193.8 crore and PAT of Rs. 1151.9 crore during 9MFY16.

During 9MFY17, JSWEL (Standalone) reported total operating income of Rs.3028 crore and PAT of Rs.192.3 crore as against total operating income of Rs.4263.4 crore and PAT of Rs.802.6 crore during 9MFY16.

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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
Debentures-Non Convertible Debentures	-	-	-	500.00	CARE AA-; Negative

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	2275.73	CARE AA-; Negative	1)CARE AA-; Negative (26-Dec-16)	1)CARE AA- (15-Mar-16) 2)CARE AA- (Under Credit Watch) (04-Nov-15)	1)CARE AA- (Under Credit Watch) (19-Feb-15) 2)CARE AA- (Under Credit Watch) (27-Oct-14)	1)CARE AA- (07-Oct-13)
2.	Debentures-Non Convertible Debentures	LT	960.00	CARE AA-; Negative	1)CARE AA-; Negative (26-Dec-16)	1)CARE AA- (15-Mar-16) 2)CARE AA- (Under Credit Watch) (04-Nov-15)	1)CARE AA- (Under Credit Watch) (19-Feb-15) 2)CARE AA- (Under Credit Watch)	1)CARE AA- (07-Oct-13)

							(27-Oct-14)	
3.	Commercial Paper	ST	700.00	CARE A1+	1)CARE A1+ (26-Dec-16)	1)CARE A1+ (15-Mar-16) 2)CARE A1+ (Under Credit Watch) (04-Nov-15)	1)CARE A1+ (Under Credit Watch) (19-Feb-15) 2)CARE A1+ (Under Credit Watch) (27-Oct-14)	1)CARE A1+ (07-Oct-13)
4.	Non-fund-based - ST-BG/LC	ST	3817.00	CARE A1+	1)CARE A1+ (26-Dec-16)	1)CARE A1+ (15-Mar-16) 2)CARE A1+ (Under Credit Watch) (04-Nov-15)	1)CARE A1+ (Under Credit Watch) (19-Feb-15) 2)CARE A1+ (Under Credit Watch) (27-Oct-14)	1)CARE A1+ (07-Oct-13)
5.	Debentures-Non Convertible Debentures	LT	840.00	CARE AA-; Negative	1)CARE AA-; Negative (26-Dec-16)	1)CARE AA- (15-Mar-16) 2)CARE AA- (Under Credit Watch) (04-Nov-15)	1)CARE AA- (Under Credit Watch) (19-Feb-15) 2)CARE AA- (Under Credit Watch) (27-Oct-14)	1)CARE AA- (07-Oct-13)
6.	Fund-based - LT-Cash Credit	LT	640.00	CARE AA-; Negative	1)CARE AA-; Negative (26-Dec-16)	1)CARE AA- (15-Mar-16) 2)CARE AA- (Under Credit Watch) (04-Nov-15)	1)CARE AA- (Under Credit Watch) (19-Feb-15) 2)CARE AA- (Under Credit Watch) (27-Oct-14)	1)CARE AA- (07-Oct-13)
7.	Fund-based - ST-Term loan	ST	-	-	1)Withdrawn (26-Dec-16)	1)CARE A1+ (15-Mar-16) 2)CARE A1+ (Under Credit Watch) (04-Nov-15)	1)CARE A1+ (Under Credit Watch) (19-Feb-15) 2)CARE A1+ (Under Credit Watch) (27-Oct-14)	1)CARE A1+ (07-Oct-13)
8.	Debentures-Non Convertible	LT	1000.00	CARE AA-; Negative	1)CARE AA-; Negative	1)CARE AA- (15-Mar-16)	-	-

	Debentures				(26-Dec-16)			
9.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA-; Negative	-	-	-	-

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