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India Ratings Assigns JSW Energy's Additional NCDs 'IND AA'/Stable; Affirms Existing Ratings

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India Ratings and Research (Ind-Ra) has affirmed JSW Energy Limited's (JSWEL) Long-Term Issuer Rating at 'IND AA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Proposed non-convertible debentures (NCDs)#	-	-	-	INR6.5	IND AA/Stable	Assigned
NCDs*				INR6.25	IND AA/Stable	Affirmed
Term loans	-	-	March 2027	INR12 (increased from INR5.43)	IND AA/Stable	Affirmed
Proposed NCDs#	-	-	-	INR2.5	IND AA/Stable	Affirmed
Fund-based limits	-	-	-	INR5.7 (reduced from INR7.8)	IND AA/Stable/IND A1+	Affirmed
Non-fund-based limits	-	-	-	INR24.68 (reduced from INR28.48)	IND A1+	Affirmed
Commercial paper (CP)	-	-	7- 365 days	INR7	IND A1+	Affirmed
Proposed bank facilities	-	-	-	INR24.62 (increased from INR6.29)	IND AA/Stable/IND A1+	Affirmed

*Details in Annexure
Yet to be issued

ANALYTICAL APPROACH: Ind-Ra has continued to take a consolidated view of JSWEL and its subsidiaries, for arriving at the ratings, because of the strong operational and strategic linkages among them.

Key Rating Drivers

Comfortable PPA Tie-ups: JSWEL's overall long-term power purchase agreements (PPAs) for its operational and pipeline capex is comfortable at around 85%, even after considering the impact of acquisitions. The total portfolio size post commissioning of the under-construction renewable, Kutehr hydro project and the acquired Ind-Bharat asset would reach 9.9GW by FY26 from the current operational of 4.8GW. The increase in the long-term tie-ups provides additional cash flows resulting in an improvement in the committed cash flows. The untied operational capacity of 645MW at the standalone level at the Vijaynagar plant is sold under the merchant/short-term contract route, based on the price attractiveness. JSWEL's low capital cost of INR42 million/MW along with efficient operations as reflected in its low operations and maintenance (O&M) expenses (FY22: INR1.9 million/MW; FY21: INR1.61 million/MW) allows the company to benefit in the merchant markets, even in case of benign exchange prices, however, it is subject to the recovery of variable cost.

The Vijaynagar plant earned substantial profits during FY22 and 1HFY23, given higher demand and price realisation at the exchanges. However, JSWEL is exploring avenues to tie-up the open capacity over the next two-to-three years from the upcoming renewable round-the-clock hybrid bids or from any increase in JSW Steel Limited's (JSL; 'IND AA'/Stable) demand at its Vijayanagar plant. JSWEL's hydro plant has also been allowed to uprate the capacity by 91MW to 1,391MW, which remains open given the price attractiveness at the exchanges at the peak time than its existing tariff. Given the management's focus remains on renewable projects for growth, Ind-Ra expects a further improvement in the overall tie-ups.

Healthy Operating Performance of Plants: JSWEL continued to report a plant availability factor above normative levels for its Barmer, hydro, Ratnagiri and Vijaynagar plants for the tied-up capacity for 1HFY23 and FY22, ensuring the entire fixed-cost recovery to the extent of the PPAs. The operating parameters for all of its thermal plants, including station heat rate and auxiliary consumption, remain in line with the normative levels, leading to no under recovery on fuel cost. The plant load factor (PLF) for plants improved in 1HFY23 with an improvement in power demand. JSWEL's O&M expenses also averaged around INR1.9 million/MW in FY22 (FY21: INR1.6 million/MW). During 1HFY23, due to the increase in merchant prices, JSWEL's standalone EBITDA improved materially to INR6.7 billion (FY22: INR10.4 billion, FY21: INR8.1 billion), with overall consolidated EBITDA at INR20 billion (INR35.7 billion, INR29.1 billion). Ind-Ra expects the existing business operations to generate EBITDA of INR35 billion-INR37 billion over the medium term, although the EBITDA generation from untied capacity will remain dependent on merchant prices impacting the overall EBITDA. With the acquisition of Mytrah portfolio, the EBITDA will further improve (FY22 EBITDA in Mytrah - INR12.5 billion). Ind-Ra has covered the impact of acquisition on JSWEL's profile in the update published on 19 September 2022.

Liquidity Indicator - Adequate: JSWEL had around INR33.3 billion of cash and cash equivalents in 1HFY23 (FYE22: INR19.3 billion; FYE21: INR11.8 billion). Moreover, it had standalone fund-based limits of INR5.7 billion, which was only utilised in October 2022 and November 2022 in the past 12 months for INR1.5 billion and INR2.5 billion, respectively for meeting the short-term cash flow mismatches. Since JSWEL avails acceptances facility for its creditors, the drawing power of its fund-based limits generally remains nil.

JSWEL has repayments of INR19.4 billon and INR20 billion in FY23 and FY24, respectively including repayments on the acquired portfolio. JSWEL had announced a planned capex of INR168 billion over FY22-FY25, for which equity infusion requirement was around INR47 billion. Till 1HFY23, JSWEL incurred a total capex of INR47 billion and infused equity of around INR25 billion. Furthermore, the company has two large acquisitions in the pipeline – 1.75GW renewable portfolio from the Mytrah Group at an enterprise value of INR105 billion and a 700MW thermal power plant from Ind-Bharath for INR10.3 billion. Ind-Ra, therefore, expects the consolidated debt at FYE23 to rise substantially on account of the organic and inorganic expansion. During 1HFY23, the debt increased to INR112 billion (FYE22: INR89 billion, FYE21: INR83 billion). Additionally, JSWEL had acceptances of INR8.2 billion in 1HFY23 (FY22: INR1.7 billion, FY21: INR3.4 billion). JSWEL also had unconsolidated guaranteed debt of INR11.1 billion at FYE22 (FY21: INR2.1 billion). Although the subsidiarised nature of the assets lends itself to lower cash flow fungibility, JSWEL has up-streamed cash by way of share buybacks from JSW Energy (Barmer) Limited ('IND AA'/Stable).

JSWEL also holds shares of JSL valued at around INR44.4 billion as of September 2022 which could be utilised, if needed. The pledge on promoter shareholding reduced to 10.98% as of IHFY23 (FY22: around 13%).

Low Offtake Risks: Offtake risks for JSWEL are limited on account of i) 1,300MW hydro projects with a must-run status and ii) a competitive tariff with variable cost of generation for Barmer thermal asset at about INR2.5/unit, thus positioning JSWEL better in the merit order dispatch. The under construction renewable projects are also at a blended tariff of INR3.08/unit, along with the estimated levelised tariff of INR4.5/unit for hydro project, keeping the offtake risk low. The company remains exposed to open capacity as the same is run on imported coal and the prevailing high prices make it less competitive. However, Ind-Ra, in its analysis, does not assume significant EBITDA generation from the sales from united capacity.

Progress in Under Construction Projects: JSWEL has 2.2GW of renewable projects in under construction stage with around 2GW in the wind and solar segment. Of the total under construction projects, JSW has tied up 810MW of renewable projects with Solar Energy Corporation of India (SECI) at a tariff of INR3.00/unit, 450MW of renewable capacity with SECI at INR2.78/unit, and 958MW capacity with JSL. JSWEL plans to commission the under construction renewable capacity in phases starting 1QFY24. Furthermore, on Kutehr project on September 2022, around 57% of all civil works, 27% of the hydro-mechanical works, and 76% of electromechanical works had been completed as per the management's estimates, and construction works were in line with the scheduled target to achieve project commissioning by 1 October 2024. Ind-Ra draws comfort from JSWEL's track record of completing its existing under construction projects at healthy capital costs and within time estimates. The Vijayanagar plant has the lowest capital cost of INR36 million/MW. With the planned under construction capacity, the overall capacity would be fairly diversified with thermal power contributing around 40% to the total capacity by FY25 (1HFY22: 66%), hydro 18% (29%) and renewable 42% (5%).

Leverage to Increase: The acquisitions and the organic growth could increase the consolidated leverage over 5x in FY23; however, once the integration is complete, the same is likely to normalise to below 4.5x. JSWEL's consolidated leverage profile also includes the other under-construction projects in hydro (Kutehr), awarded SECI assets and group captives totalling 2,400MW. Ind-Ra expects the gross debt to increase substantially in FY23 (FY22: INR89 billion) to fund capex/acquisitions.

Debtors Under Control, Although Risk Remains: JSWEL's debtors increased to INR17.8 billion in 1HFY23 (FY22: INR13 billion, FY21: INR13.1 billion). Ind-Ra expects the company's counterparty risk to be fairly manged through i) the diversified nature of the off-takers across nine discoms, ii) sale of power on the cost-plus basis to JSW group to lower payments risk and balance in merchant sales, iii) payment security mechanism in the form of letters of credit, iv) favourable positioning in the merit order despatch schedule, and iv) the presence of state government guarantees in the Baspa and Barmer projects. The company also receives late payment surcharge against delayed payments. However, the debtor risk remains on account of the weak financial position of the discoms. With the addition of the Mytrah portfolio, which has exposure to Telangana/Andhra Pradesh/Rajasthan accounting 24%/21%/15%, respectively, while SECI accounts for 14% of the total capacity, the state exposure would increase, which can stretch the receivable cycle. However, the under-construction renewable portfolio of 2GW is tied with SECI (1.26GW) and JSL (0.73GW), providing comfort.

Rating Sensitivities

Positive: A significant increase in the proportion of cash flows from non-conventional businesses, diversification in the value chain, continued healthy returns on incremental capex while ensuring significant cash flows from long-term PPA-backed projects with strong counterparties, leading to a continued improvement in the business and financial profile, would be positive for the ratings.

Negative: An increase in the debtors and/or significant outflows towards projects with non-committed cash flows and/or higher outflows towards loans and advances, and/or equity commitment being higher than that being internally generated and/or a lower-than-expected operational performance, leading to deterioration in the overall liquidity and a decline in the financial profile, will be negative for the ratings.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on JSWEL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

JSWEL 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 power sectors including generation, power transmission, mining, power plant equipment manufacturing and power trading.

JSWEL has a 4,784MW generation capacity, of which 3,158MW is thermal power including Vijayanagar, Karnataka (860MW); Ratnagiri, Maharashtra (1,200MW); lignite-based power plant in Barmer, Rajasthan (1,080MW), Nandyal, Andhra Pradesh (18MW), 1,391MW hydropower Karcham Wangtoo, Himachal Pradesh (1,091MW) and Baspa, Himachal Pradesh (300MW) and 235MW is solar power. JSWEL also has a transmission line through a 74:26 joint venture with Maharashtra State Electricity Transmission Company Limited. The project consists of 400kV double circuit Jaigad – New Koyna (55km) and Jaigad – Karad (110km) lines for transmission of the power generated at the Ratnagiri plant (Maharashtra).

FINANCIAL SUMMARY - CONSOLIDATED

Particulars	**1HFY23**	**FY22**	**FY21**
Revenue (INR billion)	54.13	81.7	69.2
EBITDA (INR billion)	19.1	35.7	29.1
EBITDA margin (%)	35.3	43.7	42.0
Gross interest coverage (x)	4.8	4.6	3.2
Net leverage (x)	-	2.31	2.65
Source: Ind-Ra, JSWEL			

Rating History

Instrument Type	**Current Rating/Outlook**			**Historical Rating/Outlook**	
	Rating Type	**Rated Limits (billion)**	**Rating**	**7 February 2022**	**8 February 2021**

Issuer rating	Long-term	-	IND AA/Stable	IND AA/Stable	IND AA-/Stable
Term loans	Long-term	INR12	IND AA/Stable	IND AA/Stable	IND AA-/Stable
Fund-based limits	Long-term/Short-term	INR5.7	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA-/Stable/IND A1+
Non-fund-based limits	Short-term	INR24.68	IND A1+	IND A1+	IND A1+
NCDs	Long Term	INR15.25	IND AA/Stable	IND AA/Stable	IND AA-/Stable
CP	Short-term	INR7	IND A1+	IND A1+	IND A1+
Proposed bank facilities	Long-term/Short-term	INR24.62	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	-

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE121E07320	30 December 2016	8.65	30 December 2022	INR2	IND AA/Stable
NCDs	INE121E07353	9 March 2021	*	16 February 2024	INR1.75	IND AA/Stable
NCDs	INE121E07361	30 September 2022	#	30 September 2025	INR2.5	IND AA/Stable

*(Benchmark 12-month treasury-bill rate) + 3.25 % p.a.
Linked to SBI MCLR

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loans	Low
Fund-based limits	Low
Non-fund-based limits	Low
Proposed NCDs	Low
NCDs	Low
CP	Low
Proposed bank facilities	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates