JSW Energy Limited

September 01, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term bank limits	2,371.18	**CARE A+; Stable [Single A Plus; Stable]**	**Revised from CARE AA-; Stable [Double A Minus; Stable]**
Short-term bank limits	2,992.00	**CARE A1+; [A One Plus]**	**Reaffirmed**
Total facilities	**5,363.18 (Rs. Five Thousand Three hundred and Sixty Three crore and eighteen lakhs only)**		
Non-Convertible Debentures Issues	1,400.00	**CARE A+; Stable [Single A Plus; Stable]**	**Revised from CARE AA-; Stable [Double A Minus; Stable]**
Commercial Paper Issue	700.00	**CARE A1+; [A One Plus]**	**Reaffirmed**

Detailed Rationale & Key Rating Drivers

The revision in long-term rating of bank facilities & instruments of JSW Energy Limited (JEL) is on account of recently announced plans of the company to enter into new business areas viz renewable energy generation, which was not factored in earlier in its analysis by CARE Ratings. JEL plans to construct 810 MW of wind and solar power project. This will be funded by a mobilising debt at JEL level and project debt at Special Purpose Vehicle (SPV) level. This will deteriorate the financial risk profile of the company, which is likely to be significantly different than what was projected earlier. High investment grade ratings inspite of high counterparty risk were underpinned by strong financial risk profile, marked by low leverage, a ratio, level of which will significantly alter post assumption of debt to fund the new capex. Concomitant project risk as a result of new under construction project will also weigh on the credit profile of JEL.

The ratings of bank facilities & instruments of JSW Energy Limited (JEL) continue to derive strength from well established and 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.

However, the rating strengths continue to be partially offset by volatility associated with fuel cost & foreign exchange rate and weak counter parties.

Rating Sensitivities

Positive rating sentivities

- *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 rating sentivities

- *Any major capital expenditure/large debt funded acquisition resulting in moderation in the financial risk profile with Total Debt to PBILDT above 5.00 times on sustained manner*
- *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, 2020 JSW group's consolidated operational capacity stood at 4.5 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 1,200 MW imported coal based plant at Ratnagiri, Maharashtra. The company, through JSW Energy (Barmer) Limited (subsidiary of JEL) owns and operates a 1,080 MW lignite based power plant in Barmer,

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

Rajasthan. JEL has presence in renewable segment through operations of hydro project capacity of 1,300 MW in Himachal Pradesh 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, 2020, JEL had long term PPAs for about 81% 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.
The O&M expenses of the company reduced to Rs. 17.90 lakh/MW in FY20 as compared to Rs. 18.70 lakh/MW in FY19 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.
PAF of Ratnagiri stood around 96% in FY20. PLF in FY20 marginally dipped to 75% as compared to 76% in FY19. However, in the first week of April, 2020 the PLF dipped to 55% due to lower offtake from group captive customers. Further, the PLF dipped to 40% in FY20 as compared to 51% in FY19 at company's Vijayanagar plant due lower power offtake from group captive customers.
JEL expects to revive its Kutehr hydro project of capacity of 240 MW. The company has incurred around Rs. 300 crore as on date on the project. The company is in talks with Discoms for power off-take from project; post finalisation of offtake arrangement the project work will restart.
Going forward ability of the company to maintain envisaged operational parameters amidst tepid domestic power sector remains key rating sensitivity.

Key Rating Weaknesses
Concomitant project risk with new under construction project in renewable energy generation
JEL's wholly owned subsidiary JSW Solar Limited (JSL) emerged as L2 bidder for 810 MW capacity pursuant to e-Reverse Auction by Solar Energy Corporation of India Limited (SECI) held on 14th August 2020 at a flat tariff of Rs 3.00/unit to set up project (wind with option of blending 20 % solar) on Built Own Operate (BOO) basis. Letter of Award (LOA) from SECI is awaited. The project is proposed to be funded in Debt: Equity ratio of 70:30. The power offtake arrangement would be with SECI. SECI in turn would enter into Power Sale Agreements (PSA) with State Discoms.
The wind and solar power project will be funded by a mobilising debt at JEL level and project debt at Special Purpose Vehicle (SPV) level. This will deteriorate the financial risk profile of the company, which is likely to be significantly different than what was projected earlier. High investment grade ratings inspite of high counterparty risk were underpinned by strong financial risk profile, marked by low leverage, a ratio, level of which will significantly alter post assumption of debt to fund the new capex.

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

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.
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.

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 discoms. The receivables value at consolidated level increased from Rs. 1,427.75 crore as on March 31, 2019 to Rs. 2,103.20 crore as on March 31, 2020 on account of delay in receipts from Rajasthan & Uttar Pradesh Discoms. Average collection days of the company stood 77 days as on March 31, 2020. However, the receivables position improved to Rs. 1,682.40 crore as on June 30, 2020.

Liquidity analysis:

Liquidity: Strong

JEL at consolidated level has free cash and cash equivalent of Rs. 1,120 crore coupled with unutilized fund based working capital limits of Rs. 792 crore as on July 31, 2020 provides a liquidity support to a large extent towards annual debt obligations of around Rs. 2,600 crore in FY21.

Average collection days of the company increased from 51 days as on March 31, 2019 to 77 days as on March 31, 2020. Further, the operating cycle of the company continues to be negative as on March 31, 2020.

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 Private 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 4.5 GW (consolidated) as of March 31, 2020. 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)	FY19 (Audited)	FY20 (Audited)
Total operating income	9,537.49	8,560.94
PBILDT	3253.02	3,257.60
PAT	684.49	1,081.18
Overall gearing (times)	0.78	0.93
Interest coverage (times)	2.73	3.10

CARE has adjusted financials of JEL for analytical purpose.

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
Fund-based - LT-Term Loan	-	-	-	March, 2025	1826.18	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	2992.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	545.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE121E07320	December 30,2016	8.65%	30.12.2022	500.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE121E07338	September 20,2017	8.40%	18.09.2020	500.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE121E07346	January 29, 2020	8.55%	28.01.2022	300.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE121E07098 INE121E07106 INE121E07114	July 20,2010 July 30,2010 August 16, 2010	9.75%	20.07.2020 30.07.2020 16.08.2020	100.00	CARE A+; Stable
Commercial Paper	-	-	-	7 to 364 days	700.00	CARE A1+

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 2020-2021	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	1826.18	CARE A+; Stable	1)CARE AA-; Stable (01-Jul-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Apr-20)	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+	1)CARE A1+ (01-Jul-20) 2)CARE A1+ (Under Credit watch with Negative Implications) (23-Apr-20)	1)CARE A1+ (Under Credit watch with Negative Implications) (18-Dec-19) 2)CARE A1+ (17-Oct-19) 3)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	2992.00	CARE A1+	1)CARE A1+ (01-Jul-20) 2)CARE A1+ (Under Credit watch with Negative Implications) (23-Apr-20)	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	100.00	CARE A+; Stable	1)CARE AA-; Stable (01-Jul-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Apr-20)	1)CARE AA- (Under Credit watch with Negative Implications) (08-Jan-20) 2)CARE AA- (Under Credit watch with Negative Implications) (17-Oct-19) 3)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	LT	545.00	CARE	1)CARE AA-;	1)CARE AA-	1)CARE AA-;	1)CARE AA-;

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
	Credit			A+; Stable	Stable (01-Jul-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Apr-20)	(Under Credit watch with Negative Implications) (17-Oct-19) 2)CARE AA-; Stable (05-Jul-19)	Stable (31-Oct-18) 2)CARE AA-; Stable (05-Oct-18)	Negative (08-Sep-17)
7.	Debentures-Non Convertible Debentures	LT	1000.00	CARE A+; Stable	1)CARE AA-; Stable (01-Jul-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Apr-20)	1)CARE AA- (Under Credit watch with Negative Implications) (08-Jan-20) 2)CARE AA- (Under Credit watch with Negative Implications) (17-Oct-19) 3)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (05-Oct-18)	1)CARE AA-; Negative (08-Sep-17)
8.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (08-Jan-20) 2)CARE AA- (Under Credit watch with Negative Implications) (17-Oct-19) 3)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (05-Oct-18)	1)CARE AA-; Negative (08-Sep-17)
9.	Debentures-Non Convertible Debentures	LT	300.00	CARE A+; Stable	1)CARE AA-; Stable (01-Jul-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Apr-20)	1)CARE AA- (Under Credit watch with Negative Implications) (08-Jan-20)	-	-

Annexure-3: List of subsidiaries, associates and joint ventures of JEL getting consolidated (list as on June 30, 2020)

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-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper	Simple
2.	Debentures-Non Convertible Debentures	Simple
3.	Fund-based - LT-Cash Credit	Simple
4.	Fund-based - LT-Term Loan	Simple
5.	Non-fund-based - ST-BG/LC	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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Ratnam Raju N
Group Head Contact no.-022- 6837 4472
Group Head Email ID- ratnam.nakka@careratings.com

Business Development Contact
Name: Ankur Sachdeva
Contact no. : 022- 6754 3495
Email ID: Ankur.sachdeva @careratings.com

About CARE Ratings:
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