

December 4, 2009

Rating	Subscribe at lower band
Price Band	Rs100 to 115
Crisil IPO Grading	4/5

(Grade 5/5 indicates strong fundamentals and grade 1/5 indicates poor fundamentals)

**IPO Fact Sheet**

Opening Date:	December 7, 2009
Closing Date:	December 9, 2009
BRLM:	JM Financial, Kotak, ICICI Sec and IDFC SSKI
Issue Size (Rs bn) :	Rs27bn

**Issue Details (m shares)**

Pre-issue equity	1372.73
Fresh Issue	
Of which	
Employee Reservation	0.00
QIBs	171.8
Retail	73.6
Non-institutional	33.98
Post-issue equity	1618.2

**Share Holding**

(%)	Pre Issue	Post Issue
Promoter group	91.66	77.8
Foreign Investors	7.88	6.7
Institutions	-	10.6
Public	-	4.6
Trust	0.46	0.4

Source: RHP (Assuming IPO price of Rs 110)

- **Issue details:** JSW Energy (JSWEL) is coming out with an initial public offering (IPO) to partly fund power projects of 2790MW, with a share issue of ~24.5m at a price band of Rs100-115. The company shall be raising Rs27bn, implying a market capitalization of ~Rs178bn. Retail investors are being offered a discount of Rs5.
- **Looking forward to deliver 3410MW by FY13:** JSWEL currently has operating capacities of 995MW and is executing power projects of 2415MW, which shall be commercialised by FY13. 240MW of a hydro project is likely to get commissioned by FY16. It also has plans to add another 7740MW by FY16. These are the projects which are in the development stage.
- **~45% of fuel demand to be met by imports:** JSWEL has entered in to an agreement with PT Sungai Belati coal, Indonesia and JSW Natural Resources, South Africa for 45% of its coal requirements (~19MTPA) by FY15. Further, the management is on the lookout for overseas coal mine acquisition over the next 6-9 months.
- **~50% of power to be sold in short-term markets:** JSWEL has earmarked ~1635MW of power capacity to be sold on a short-term basis. Currently, average realization of tariffs in the short-term markets is Rs5.5/unit, whereas the average fuel cost is ~Rs1.87/unit.
- **Valuation and Recommendation:** JSWEL is planning to add projects with total capacity of 2415MW over the next three years. Currently, it has an operating capacity of 995MW, with revenues of ~Rs18bn and PAT of ~Rs6bn for FY10E. With the buoyancy in short-term tariffs (~Rs5.5 currently) and bulk of its initial capacity addition targeted at short-term sales, the company is likely to deliver strong operational performance in FY11 and FY12.

However, at ~Rs110, JSWEL is expected to be valued at 2.4x P/BV FY12E to post-issue book value, which in our view is stiffly priced. Also, enough paper is expected to hit the market in the power generation segment over the next 3-6 months, which shall further have an impact on the overall appetite for such issues. We would recommend 'Subscribe' only at lower end of the price band for a probable 7-8% listing gain.

Key financials (Y/e March)	FY07	FY08	FY09	FY10E
Revenues (Rs m)	7,769	12,931	18,350	18,141
Growth (%)	43.4	66.4	41.9	(1.1)
EBITDA (Rs m)	4,277	8,765	5,319	10,234
PAT (Rs m)	2,721	3,238	2,790	5,994
EPS (Rs)	7.8	6.3	5.4	11.0
Growth (%)	71.3	(19.8)	(13.8)	102.3

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09	FY10E
EBITDA margin (%)	55.1	67.8	29.0	56.4
RoE (%)	25.9	30.7	22.6	18.1
RoCE (%)	20.1	26.0	6.7	7.2
P/BV (x)	3.4	5.7	4.1	3.5
PE (x)	14.0	17.5	20.3	10.0

Source: Company Data; PL Research

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## The Issue & Plans

JSWEL is coming out with an IPO issuing fresh equity at a price band of Rs100-115. The company intends to raise Rs27bn from the issue. Post issue, the promoter holding will dilute from 91.6% to 77.8% (assuming issue price @ Rs110).

Proceeds of the issue would be used to finance construction and development of power projects aggregating to capacities of 2790MW, 400kV transmission lines project and development of lignite mines at Barmer, Rajasthan. Part of the proceeds (Rs4.7bn) would be used to retire the high cost debt of IDBI bank which was taken to infuse capital for the ongoing projects.

Utilization of issue proceeds		(Rs m)
Particulars		Amount
<b>1. Projects identified</b>		
Ratnagiri (1200 MW)		4,189
RWPL Phase 1 ( Rajasthan-1080 MW)		2,877
RWPL Phase 2 (Rajasthan-270 MW)		2,757
Kutehr Hydro project (Himachal-240 MW)		8,228
JPTL (169KM -- 400 kV transmission line)		496
BLMCL (Kapurdi and Jalipa Mines at Barmer-- 7 MTPA)		2,878
		<b>21,425</b>
<b>2. Corporate debt Repayment</b>		
		<b>4700</b>
<b>Total</b>		<b>26,125</b>

Source: RHP

### Fund deployment schedule

S. No.	Identified Project	FY10	FY11	FY12	FY13	FY14 onwards	Total	Capacity	Estimated date of commissioning
1.	Ratnagiri	3,274	915	0	0	0	4,189	4 x 300	April 2011
2.	RWPL Phase 1	2,662	215	0	0	0	2,877	8 x 135	April 2011
3.	RWPL Phase 2	750	695	454	858	0	2,757	2 x 135	January 2013
4.	Kutehr	154	2,050	2,000	2,000	2,025	8,228	3 x 80 MW	December 2015
5.	JPTL	496	0	0	0	0	496	400 KV	June 2010
6.	BLMCL	2,335	543	0	0	0	2,878	7 MTPA	July 2010
	<b>Total</b>	<b>9,421</b>	<b>4,542</b>	<b>2,579</b>	<b>2,858</b>	<b>2,025</b>	<b>21,425</b>		

Source: RHP

## Investment highlights

### Looking forward to scale capacity to 3410MW by end of FY13

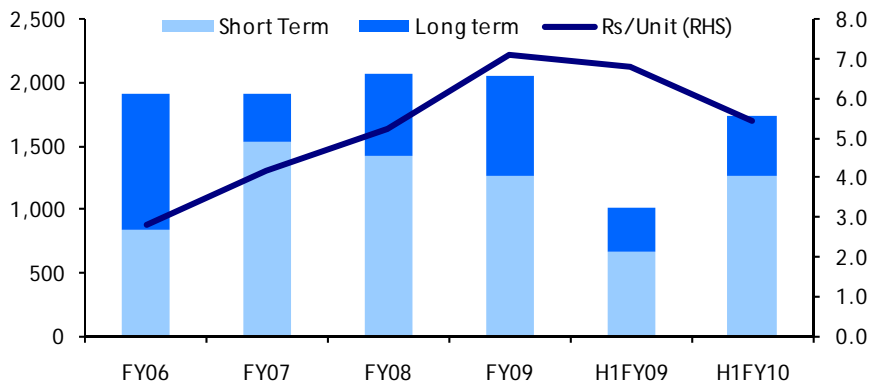
JSWEL has four projects under implementation which shall scale its capacity to 3410MW by end of FY13, a 3.5x increase over the existing operating capacity. The company currently has operating capacities of 995MW and is executing power projects of 2415MW, which shall be commercialised by FY13. 240MW of a hydro project is likely to get commissioned by FY16. It also has plans to add another 7740MW by FY16. These are the projects which are in the development stage.

### Key beneficiary of high merchant tariffs

JSWEL has earmarked ~1635MW of power capacity to be sold on short-term basis. Currently, the average realization of tariffs in the short-term markets is Rs5.5/unit, whereas the average fuel cost is ~Rs1.87/unit.

#### Power sales skewed towards short term sales

*Graph demonstrates buoyancy in short-term tariffs. JSWEL had average realizations of Rs5.5/unit in H1FY10.*



Source: RHP



## Integrating with allied power businesses like transmission, mining and equipment manufacturing

JSWEL has entered into JVs in power transmission, mining & equipment manufacturing (BTG) to integrate its power generation operations. All related economic benefits of above JVs shall accrue to JSWEL. The Toshiba JV has a planned capacity of 3000MW/year of BTG.

### JSWEL economic interests of various JV's

	Share holding Pattern	Operations
Equipment Manufacture	JSWEL- 20%, JSWSL -5%, Toshiba - 75%	to undertake designing, engineering, manufacturing, assembly and sale of STG Products
Power transmission line	JSWEL- 76%, MSETCL - 24%	to build, own and operate the transmission network (169Km)
Mining	RSMML 51%, JSWEL-49%	engaging in mining activities in the Kapurdi and Jalipa lignite mining blocks in Rajasthan

Source: RHP



Status of existing projects

JSW Energy	Projects under construction						Projects under development			
Project	JSWEL-SBU1	JSWEL-SBU2	JSW Energy Ratnagiri	Raj West Power - Phase 1	Raj West Power -- Phase 2	JSWEL-Kutehr	JSWERL	Chattisgarh	West Bengal	Jharkhand
Location	Karnataka	Karnataka	Ratnagiri, Maharashtra	Barmer, Rajasthan	Barmer, Rajasthan	Kutehar, HP	Ratnagiri	Raigarh, Chattisgarh	West Bengal	Jharkhand
Planned capacity (MW)	260	600	1200	1080	270	240	3200	1320	1600	1620
Configuration	2 X 130	2 X 300	4 X 300	8 X 135	2 X 135	3 X 80	4 X 800	NA	2 X 800	NA
Capital cost Rs m	-	18,600	45,000	50,000	13,500	19,152	150,007	65,000	76,800	79,380
Fuel Type	Coal/gas	Coal	Coal	Lignite	coal/Lignite	Hydro	Coal	Coal	Coal	Coal
Expected COD	Year 2000	Sep-09	Oct-10	Oct-10	Jan-13	Dec-15	Apr-15	Aug-14	Feb-15	Aug-15
Equity Contribution	-	25%	25%	25%	25%	25%	25%	25%	25%	NA
Power offtake type	Short term	Short term & long term	Short term & long term	Long Term	Short term	Short term	Long term & Short term	Long term & Short term	Long term & Short term	Long term & Short term
Fuel Supply arrangement	JSWEL	PT Sungai belati coal	PT Sungai belati coal	BLMCL	BLMCL & PT Sungai Belati coal	NA	Imported coal	Coal Mine. Orissa	Captive Coal block	Coal Linkage
Project Appraisal	Operational	Operational	SBI capital	ICICI Bank	ICICI Bank	ICICI Bank	NA	NA	NA	NA

Source:RHP

RHP



## Concerns

### Govt. approval needed for two projects, aggregating capacity of 470MW

JSWEL has entered into a MoU with the Government of Maharashtra to set up a 1,000MW power project at Ratnagiri which they intend to expand to 1,200MW. Similarly, they are planning to develop an additional 270MW power project at Barmer, Rajasthan on the same parcel of land as RWPL's 1,080MW power project at that location. Both the planned expansions are awaiting government clearances.

### Poor health of SEB's may impact financials

JSWEL is likely to sell 50% of the power generated via long term Power purchase agreement (PPA) to the State Electricity Board's (SEB). Poor health of the SEB's would impact financials of JSWEL and delay in payments/default would adversely impact the company operations.

## Valuation

JSWEL is planning to add projects with a total capacity of 2415MW over the next three years. Currently, it has an operating capacity of 995MW, with revenues of ~Rs18bn and PAT of ~Rs6bn for FY10E. With the buoyancy in short-term tariffs (~Rs5.5 currently) and bulk of its initial capacity addition targeted at short-term sales, the company should deliver strong operational performance in FY11 and FY12.

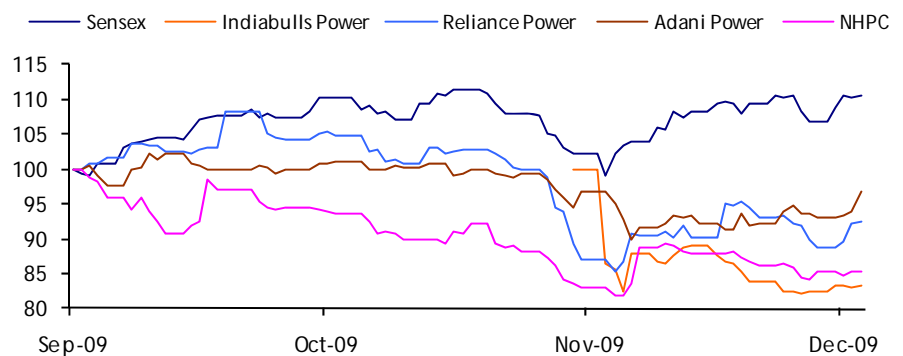
However, at ~Rs110, JSWEL is expected to be valued at 2.4x P/BV FY12E to post-issue book value, which in our view is stiffly priced. Also, enough paper is expected to hit the market in the power generation segment over the next 3-6 months, which shall further have an impact on the overall appetite for such issues. We would recommend 'Subscribe' at lower end of the price band for a probable 7-8% listing gain.

### Peer comparison

	P/BV (x)		P/E (x)	
	FY11E	FY12E	FY11E	FY12E
NTPC	3.0	2.6	17.6	15.5
Neyveli Lignite	2.4	2.2	21.3	19.1
Tata Power	2.4	2.1	17.2	16.3
Reliance Power	2.6	2.4	68.1	46.6
Adani Power	2.9	2.2	19.0	9.4
Indiabulls Power	1.5	1.5	-	-
<b>JSW Energy</b>	<b>3.0</b>	<b>2.4</b>	<b>20.4</b>	<b>12.1</b>

Source: Bloomberg, PL Research

### Performance of recent listed power IPO's



Source: Bloomberg, PL Research



## Financials

### Income Statement

(Rs m)

Y/e March	FY06	FY07	FY08	FY09	FY10E
<b>Total Operating Income</b>	<b>5,418</b>	<b>7,769</b>	<b>12,931</b>	<b>18,350</b>	<b>18,141</b>
Purchase of power	-	296	167	5744	-
<i>% of sales</i>	-	<i>3.8</i>	<i>1.3</i>	<i>31.3</i>	-
Cost of fuel	2,558	2648	3122	6202	6893
<i>% of sales</i>	<i>47.2</i>	<i>34.1</i>	<i>24.1</i>	<i>33.8</i>	<i>38.0</i>
Employees Cost	62	88	155	271	270
<i>% of sales</i>	<i>1.1</i>	<i>1.1</i>	<i>1.2</i>	<i>1.5</i>	<i>1.5</i>
Other Expenses	381	460	723	814	700
<i>% of sales</i>	<i>7.0</i>	<i>5.9</i>	<i>5.6</i>	<i>4.4</i>	<i>3.9</i>
<b>Total Operating Expenses</b>	<b>3,000</b>	<b>3,492</b>	<b>4,167</b>	<b>13,032</b>	<b>7,907</b>
<b>EBITDA</b>	<b>2,418</b>	<b>4,277</b>	<b>8,765</b>	<b>5,319</b>	<b>10,234</b>
<i>Margin (%)</i>	<i>44.6%</i>	<i>55.1%</i>	<i>67.8%</i>	<i>29.0%</i>	<i>56.4%</i>
Depreciation & Amortisation	580	583	586	602	900
Other Income	71	346	329	171	500
<b>EBIT</b>	<b>1,909</b>	<b>4,040</b>	<b>8,508</b>	<b>4,888</b>	<b>9,834</b>
Less: Gross Interest	497	630	886	1209	2050
<b>Recurring Pre-tax Income</b>	<b>1,412</b>	<b>3,410</b>	<b>7,622</b>	<b>3,678</b>	<b>7,784</b>
Prior period adjustments	135	(184)	(3015)	23	
Less: Taxation	223	506	1,370	911	1790
<i>Tax rate (%)</i>	<i>15.8</i>	<i>14.8</i>	<i>18.0</i>	<i>24.8</i>	<i>23.0</i>
<b>Net Income (Reported)</b>	<b>1,324</b>	<b>2,721</b>	<b>3,238</b>	<b>2,790</b>	<b>5,994</b>





## Balance Sheet

(Rs m)

Y/e March	FY06	FY07	FY08	FY09	FY10E
Share Capital	2,890	3,468	5,148	5,466	16,182
Reserves & Surplus	6,935	7,733	4,767	9,312	34,918
Net Worth	9,825	11,201	9,914	14,778	51,274
Total Borrowings	4,389	7,071	22,727	59,272	81,763
Minority Interest	-	800	800	152	175
Deferred Tax Liability	443	559	685	814	937
<b>Total Liabilities</b>	<b>14,657</b>	<b>19,631</b>	<b>34,126</b>	<b>75,016</b>	<b>134,149</b>
Gross Block	10,731	10,865	11,144	11,519	35,717
Less Accumulated Depreciation	3,567	4,152	4,742	5,349	6,249
Net Block	7,164	6,713	6,402	6,170	29,468
Add: Capital Work in Progress	116	2,729	27,420	79,190	90,000
Total Fixed Assets	7,280	9,442	33,822	85,360	119,468
Goodwill	-	171	172	172	172
Total Investments	3,455	3,675	207	1,705	22,000
<b>Current Assets, Loans &amp; Advances</b>					
Cash & Bank balance	448	2,745	2,949	1,751	5,337
Inventory	215	231	301	323	355
Sundry Debtors	4,675	3,899	693	1,409	4,200
Loans and Advances	249	1,035	1,092	1,958	3,171
Total Current Assets	5,587	7,910	5,035	5,441	13,064
<b>Current Liabilities &amp; Provisions</b>					
Current Liabilities	370	1,142	3,811	17,637	20,283
Provisions	1296	425	1,298	24	100
Total Current Liabilities and Provisions	1,665	1,567	5,110	17,661	20,383
Net Current Assets	3,922	6,343	(75)	(12,220)	(7,319)
<b>Total Assets</b>	<b>14,657</b>	<b>19,631</b>	<b>34,126</b>	<b>75,016</b>	<b>134,149</b>

## Company background

JSWEL is a group company of Jindal South West (JSW) group headed by Mr.Sajjan Jindal. It plans to foray in all areas of power, i.e., Generation, Transmission, Distribution and Trading. JSWEL is the first Independent Power Producer (IPP) to be set up in the state of Karnataka, with operating capacities of 860MW. The company has set up two units of 130MW each in the year 2000 and both units are generating power using Corex gas and coal. Further, 600MW of capacity was added in September 2009 working on imported Indonesian coal.

Currently, it has 2790MW of projects under implementation in the states of Rajasthan, Himachal Pradesh & Maharashtra. Raj WestPower (RWPL) is a Rs50bn project at Bhadresh, district Barmer. The project plans to generate 1080MW (8 x 135 MW) of power which will be supplied to the distribution companies (Discoms) in Rajasthan. In Maharashtra, there is a 1200MW (4 x 300MW) power project under implementation located at Jaigarh, district Ratnagiri, Maharashtra. JSW envisages making Jaigarh, a port-based power plant by setting up a port facility and making it a full-fledged business centre in the coming years. JSWEL is setting up a Hydro Power Project at Kutehar, River Chamba, which will generate 240MW power.

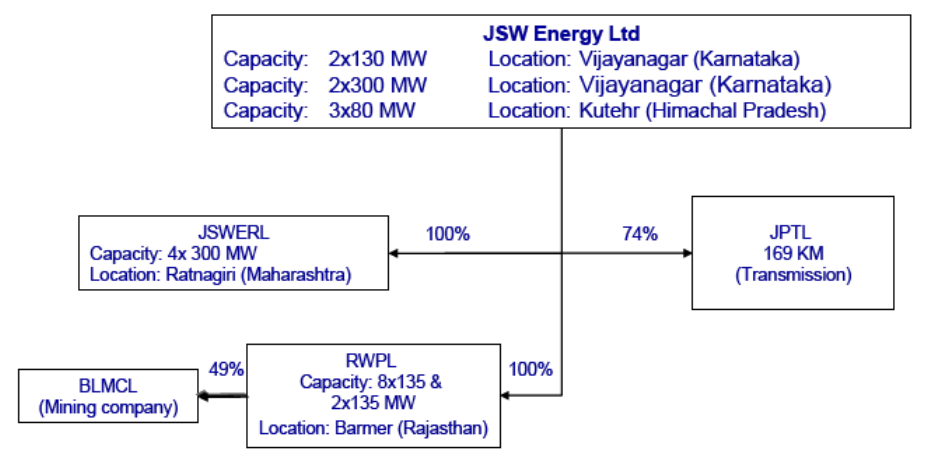
Besides power generation, JSWEL is venturing into manufacturing of supercritical boilers. This is a joint venture project between JSWEL and Toshiba coming up at Chennai.

### Top Shareholders of JSWEL (%)

JSW Investments	39.06
Sun Investments	19.73
Vrindavan Services Pvt. Ltd.	8.02
JSW Steel	5.68
Mr. Sajjan Jindal	5.43
Mrs. Sangita Jindal	4.73
Steel Traders Ltd., Mauritius	4.33
Indus Capital Group, Mauritius	3.56
Gagan Trading Company	3.42
a) Ms. Tarini Jindal	1.82
b) Ms. Tanvi Jindal	1.82
c) Mr. Parth Jindal	1.82

Source: RHP

### Organization structure



Source: RHP

## Annexures

### Operating performance

#### JSWEL-SBU I (2x130 MW Karnataka)

	FY05	FY06	FY07	FY08	FY09
Installed capacity (MW)	2x130	2x130	2x130	2x130	2x130
Gross units generated (MU)	1,967	2,049	2,062	2,231	2,229
<i>Auxiliary consumption (%)</i>	<i>7.2</i>	<i>7.1</i>	<i>7.2</i>	<i>7.3</i>	<i>7.8</i>
<i>Availability factor (%)</i>	<i>96.2</i>	<i>96.8</i>	<i>96.2</i>	<i>97.3</i>	<i>97.2</i>
<i>Plant Load Factor (%)</i>	<i>86.4</i>	<i>90.0</i>	<i>90.5</i>	<i>97.7</i>	<i>97.9</i>
Heat Rate (Kcal/ kWh)	2,399	2,372	2,378	2,354	2,321

Source: RHP

#### JSWEL -- SBU 2 (2x300 MW Karnataka)

Operating Data	Pre-commercial operation date		Post- commercial operation date	
	Unit 1	Unit 2	Unit 1	Unit 2
	Apr to Jun 2009	Aug 2009	Jul to Sept 2009	Sept 2009
Installed capacity(MW)	1x300	1x300	1x300	1x300
Gross units generated(MU)	423	54	536	200
<i>Auxiliary consumption (%)</i>	<i>8.5</i>	<i>11.1</i>	<i>8.2</i>	<i>7.7</i>
<i>Availability factor (%)</i>	<i>75.9</i>	<i>77.8</i>	<i>92.1</i>	<i>100.0</i>
<i>Plant Load Factor (%)</i>	<i>64.6</i>	<i>35.7</i>	<i>80.9</i>	<i>92.6</i>
Heat Rate (Kcal/kWh)	2366	2706	2332	2343

Source: RHP

**Share capital history of the company**

Date of allotment of the Equity Shares	No. of Equity Shares	Issue Price (Rs.)	Nature of Payment	Reasons for allotment	Cumulative No. of Equity Shares	Cumulative paid-up Equity Capital (Rs m)
June 30, 1995	1200	10	Cash	Allotment pursuant to subscription to Memorandum of Association	1200	0.012
March 27, 1997	184,998,800	10	Cash	Allotment to - Tractebel SA - 92,499,400 - JSW Steel - 53,314,000 - Gagan Trad co- 37,185,400	185,000,000	1850.0
March 31, 1998	5,40,00,000	10	Cash	Allotment to - Tractebel SA - 27,000,000 - JSW Steel - 27,000,000	239,000,000	2390.0
December 9, 1998	12,000,000	10	Cash	Allotment to - Tractebel SA - 6,000,000 - JSW Steel - 6,000,000	251,000,000	2510.0
July 6, 1999	38,000,000	10	Cash	Allotment to - Tractebel SA - 19,000,000 - JSW Steel - 19,000,000	289,000,000	2890.0
September 28, 2006	57,800,000	10	Cash	Rights Issue 1 Equity share for 5 Equity shares held	346,800,000	3468.0
December 28, 2007	167,955,233	-	Bonus	Bonus Issue in the ratio 4843 shares for every 10000 shares	514,755,233	5147.6
December 17, 2008	31,816,044	-	Pursuant to amalgamation of JSWPTL & JSWEVL	Allotment to - JSW Steel - 31,192,200 - JSW Steel - 19,000,000	546,571,277	5465.7
July 28, 2009	819,856,914	-	Bonus	Bonus Issue in the ratio 3 shares for every 2 shares	1,366,428,191	13664.3
Nov 16, 2009	6,300,000	100	Cash	Allotment to Mr. Manoj Mohta & Mr. RG Ramachandran as the trustees of JSW group welfare trust	1,372,728,191	13,727.3

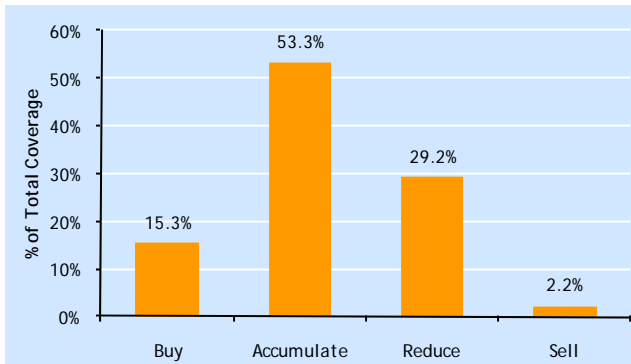
Source: RHP

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#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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