

November 9, 2011

Reco	Previous Reco
Reduce	Reduce
CMP	Target Price
Rs50	Rs46
EPS change FY12E/13E (%)	-60/-26
Target Price change (%)	-38.0
Nifty	5,221
Sensex	17,570

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	(19)	(30)	(60)
Rel. to Nifty	(3)	(21)	(26)	(51)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Power
Bloomberg	JSW@IN
Equity Capital (Rs mn)	16401
Face Value(Rs)	10
No of shares o/s (mn)	1640
52 Week H/L	127/49
Market Cap (Rs bn/USD mn)	82/1,657
Daily Avg Volume (No of sh)	1028888
Daily Avg Turnover (US\$m)	1.1

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	76.7	76.7	76.7
FII/NRI	10.9	10.5	10.7
Institutions	5.7	5.8	5.9
Private Corp	1.4	1.6	1.7
Public	5.3	5.3	4.9

Source: Capitaline

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- **2Q12 loss after tax of Rs1.1bn is attributed to forex loss of Rs778mn (buyers credit on imported coal) and poor operational performance – due to Barmer and Vijayanagar.**
- **Barmer plant did not operate in 2Q leading to huge under-recoveries (Rs590mn) & lower PLF (72%/74%) at Vijayanagar Ratnagiri (due to lower demand) added to the problems.**
- **Avg realizations stood at Rs4.2/unit, significantly lower qoq and yoy at Rs4.7 and Rs4.6/unit. Fuel cost further increased to Rs3.3/unit from Rs2.9/unit qoq and Rs2.8/unit yoy**
- **Huge cut in FY12E/FY13E earnings by 60%/26% on no profit from Barmer, higher fuel cost and lower PLF/merchant tariffs. Maintain Reduce; risky business model - open from both sides (fuel and off-take). Cut target price to Rs46/share**

Forex loss, Barmer under-recoveries and low PLF at Vijayanagar leads to losses

Highlights of the qtr – (1) Barmer 2-135MW was not operational in the qtr, pending tariff approval by RERC, (2) PLFs of other plants were low (Vijayanagar 72%, Ratnagiri 74%) due to backing down instruction by discoms. Further there is a forex translation loss on buyer's credit on imported coal. These things impacted the qtrly performance with loss after tax at Rs1.1bn. Revenues stood at Rs10.9bn (including banking arrangements), up 41% yoy and below expectations. Gross Generation volumes grew by 59%. Average realizations decline to Rs4.2/unit (Rs4.6/unit yoy) and fuel cost increase to Rs3.3/unit (Rs2.8/unit yoy) led to EBITDA margin decline of to 7.3% (32.5% yoy).

Ratnagiri fully commissioned, Barmer unit 3 commissioned

Unit 3 and 4 (600MW) of Ratnagiri power plant has been declared commercial. Unit 3 of (135MW) of Barmer has been also commissioned in Nov11. Mgmt has guided for unit 4 commissioning in next one month and complete plant by Mar12.

Huge earnings cut

We have cut earnings by 60% and 26% for FY12E/FY13E respectively. Earnings cut is driven by higher fuel cost, no profit assumption for Barmer and lower PLFs and merchant rates for operational projects.

Still room for negative surprises; Maintain Reduce

We believe even after huge underperformance relative to Nifty, there is a room for negative surprises from fuel (even Sungai Belati contract), power realizations (merchant prices, MSEDCL contract and long term contract prices). We maintain our disliking for JSW energy business model with both sides open. At CMP of Rs51/share, the stock is trading at 1.4x FY12E book. We maintain our Reduce rating with revised price target of Rs46/Share.

Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
FY10	23,551	12,136	51.5	7,457	4.5	-10.2	23.7	11.2	11.7	1.7
FY11	41,782	14,499	34.7	8,407	5.1	12.7	15.9	10.0	11.4	1.5
FY12E	50,174	16,764	33.4	4,307	2.6	-48.5	7.2	19.3	11.6	1.4
FY13E	62,826	27,293	43.4	6,852	4.2	59.3	10.5	12.1	6.9	1.2

Quarterly Results

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	FY10	FY11	YoY (%)
Revenue	7,724	10,611	14,169	11,454	10,869	40.7	-5.1	23,550	41,782	77.4
Expenditure	-5,213	-7,227	-10,042	-8,792	-10,075	93.3	14.6	-11,416	-27,283	139.0
as % of sales	-67.5%	-68.1%	-70.9%	-76.8%	-92.7%			-48.5%	-65.3%	
Consumption of RM	0	0	0	0	0				0	-
as % of sales	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%	0.0%	
Power and Fuel	-4,698	-6,518	-9,314	-7,077	-8,480	116.3	9.7	-10,030	-24,813	113.5
as % of sales	-60.8%	-61.4%	-65.7%	-61.8%	-78.0%			-42.6%	-59.4%	
Other Mfg Expenses	0	0	0	0	0			0	0	
as % of sales	0	0	0	0	0			0	0	
Employee Cost	-137	-96	-121	-202	-231	68.7	14.4	-311	-467	50.0
as % of sales	-1.8%	-0.9%	-0.9%	-1.8%	-2.1%			-1.3%	-1.1%	
Other expenditure	-378	-614	-606	-1513	-1364	260.8	-9.8	-1,075	-2,003	86.4
as % of sales	-4.9%	-5.8%	-4.3%	-13.2%	-12.5%			-4.6%	-4.8%	
EBITDA	2,511	3,384	4,127	2,662	794	-68.4	-70.2	12,134	14,499	19.5
Depreciation	-551	-745	-905	-1048	-1097	98.9	4.7	-1,361	-2,668	96.0
EBIT	1,959	2,639	3,222	1,614	-303	-115.5	-118.8	10,773	11,831	9.8
Other Income	1229	490	444	1491	1017	324.4	236.0	743	2,514	238.3
Interest	-942	-1417	-1229	-1338	-1510	60.2	12.9	-2,837	-4,325	52.5
PBT	2,246	1,712	2,437	1,767	-796	-135.4	-145.0	8,679	10,020	15.4
Total Tax	-408	-149	-414	-441	481	-217.9	-209.1	-1,224	-1,613	31.8
Adjusted PAT	1838	1563	2023	1326	-315	-117.1	-123.8	7455	8407	12.8
Extra ordinary items	0	0	0	0	-788			0	0	
Reported PAT	1838	1563	2023	1326	-1103	-160.0	-183.2	7455	8407	12.8
(Profit)/loss from JV's/Ass/MI	8	-35	25	38	15	1087.5	52.6		1	-
PAT after MI	1845	1528	2048	1364	-1088	-159.0	-179.8	7455	8408	12.8
Reported EPS	1.1	0.9	1.2	0.8	-0.2	-116.3	-122.0	4.5	5.1	12.8

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	32.5	31.9	29.1	23.2	7.3	-2520	-1594	51.5	34.7	-1682
EBIT	25.4	24.9	22.7	14.1	-2.8	-2815	-1688	45.7	28.3	-1743
EBT	29.1	16.1	17.2	15.4	-14.6	-4365	-3000	36.9	24.0	-1287
PAT	23.9	14.4	14.5	11.9	-2.8	-2665	-1467	31.7	20.1	-1153
Effective Tax rate	18.2	8.7	17.0	25.0	30.4	1219	541	14.1	16.1	200

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	23,551	41,782	50,174	62,826
<i>Growth (%)</i>	28.3	77.4	20.1	25.2
Expenditure	11,415	27,283	33,410	35,534
Raw Materials	9,828	24,813	30,002	30,591
Construction Exp	1,587	2,470	3,408	4,942
Employee Cost	0	0	0	0
Other Exp	0	0	0	0
EBITDA	12,136	14,499	16,764	27,293
<i>Growth (%)</i>	128.2	19.5	15.6	62.8
EBITDA margin (%)	51.5	34.7	33.4	43.4
Depreciation	1,361	2,668	5,219	8,115
EBIT	10,775	11,831	11,544	19,177
EBIT margin (%)	45.8	28.3	23.0	30.5
Other Income	742	2,514	1,099	789
Interest expenses	2,837	4,325	7,067	11,263
PBT	8,680	10,019	5,576	8,703
Tax	1,223	1,613	1,269	1,851
<i>Effective tax rate (%)</i>	14.1	16.1	22.8	21.3
Adjusted PAT	7,457	8,407	4,307	6,852
(Profit)/loss from JV's/Ass/MI	169.3	12.7	-48.5	59.3
Adjusted PAT after MI	31.7	20.1	8.6	10.9
<i>Growth (%)</i>	0	0	0	0
Net Margin (%)	7,457	8,407	4,307	6,852
E/O items	0	-1	18	37
Reported PAT	7,457	8,406	4,325	6,889
<i>Growth (%)</i>	169.3	12.7	-48.5	59.3

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	7,938	7,505	4,477	7,914
Depreciation	1,361	2,668	5,219	8,115
Interest Provided	2,837	4,325	7,067	11,263
Other Non-Cash items	-7,847	2,599	0	0
Chg in working cap	-6,731	-8,543	-3,413	-2,088
Tax paid	221	-1,138	-3,226	-1,851
Operating Cash flow	-2,221	7,417	10,124	23,354
Capital expenditure	-31,919	-27,984	-32,127	-6,703
Free Cash Flow	-34,140	-20,566	-22,003	16,651
Other income	742	2,514	1,099	789
Investments	0	0	0	0
Investing Cash flow	-31,177	-25,470	-31,028	-5,914
Equity Capital Raised	35,177	1	0	0
Loans Taken / (Repaid)	19,430	17,675	22,160	1,649
Interest Paid	-2,837	-4,325	-7,067	-11,263
Dividend paid (incl tax)	-1,434	-1,640	0	0
Income from investments				
Others	0	571	-1,455	0
Financing Cash flow	50,335	12,281	13,638	-9,614
Net chg in cash	16,937	-5,771	-7,266	7,825
Opening cash position	3,456	20,393	14,621	7,355
Closing cash position	20,393	14,621	7,355	15,180

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	16,401	16,401	16,401	16,401
Reserves & surplus	31,554	41,088	45,504	52,356
Net worth	47,954	57,489	61,905	68,757
Secured Loans	78,701	96,376	118,536	120,185
Unsecured Loans	0	0	0	0
Loan Funds	78,701	96,376	118,536	120,185
Net deferred tax liability	1,161	1,562	0	0
Total Liabilities	127,817	155,427	180,441	188,942
Gross Block	36,839	74,153	124,315	167,640
Less: Depreciation	-6,714	-9,767	-14,987	-23,102
Net block	30,125	64,386	109,328	144,538
Capital work in progress	86,026	77,080	59,045	22,423
Investment	0	0	0	0
Current Assets	30,673	34,583	34,671	44,627
Inventories	3,714	7,637	8,270	8,333
Sundry debtors	2,714	5,348	12,070	14,136
Cash & bank balance	20,393	14,621	7,355	15,180
Loans & advances	3,852	0	0	0
Other current assets	0	6,977	6,977	6,977
Current lia & Prov	19,006	20,621	22,605	22,647
Current liabilities	17,524	18,664	22,605	22,647
Provisions	1,482	1,957	0	0
Net current assets	11,666	13,962	12,066	21,980
Misc. exp	0	0	0	0
Total Assets	127,817	155,428	180,440	188,941

Key ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	51.5	34.7	33.4	43.4
Net Margin	31.7	20.1	8.6	10.9
ROCE	10.6	8.4	6.9	10.4
ROE	23.7	15.9	7.2	10.5
RoIC	10.3	8.0	5.7	8.7
Per Share Data (Rs)				
EPS	4.5	5.1	2.6	4.2
CEPS	5.4	6.8	5.8	9.1
BVPS	29.2	35.1	37.7	41.9
DPS	0.7	1.0	0.0	0.0
Valuations (x)				
PER	11.2	10.0	19.3	12.1
P/CEPS	9.5	7.6	8.8	5.6
P/BV	1.7	1.5	1.4	1.2
EV / Sales	6.0	4.0	3.9	3.0
EV / EBITDA	11.7	11.4	11.6	6.9
Dividend Yield (%)	1.5	2.0	0.0	0.0
Gearing Ratio (x)				
Net Debt/ Equity	1.5	1.5	1.8	1.5
Net Debt/EBIDTA	6.0	6.0	6.6	3.8
Working Cap Cycle (days)	-76	-5	27	36

Recommendation History: JSW Energy – JSW IN

Date	Reports	Reco	CMP	Target
21/07/2011	JSW Energy Q1FY12 Result Update	Reduce	71	74
29/04/2011	JSW Energy Q4FY11 Result Update	Reduce	75	78
25/01/2011	Power Sector Report; Too many ends to tie			

Recent Research Reports

Date	Reports	Reco	CMP	Target
08/11/2011	Reliance Power Q2FY12 Result Update	Buy	103	155
31/10/2011	NTPC Q2FY12 Result Update	Buy	179	204
21/10/2011	GIPCL Q2FY12 Result Update	Buy	77	115
21/10/2011	Sintex Industries Q2FY12 Result Update	Buy	118	150

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