

# JSW Energy

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
16,877	5,118
Bloomberg	JSW IN
Equity Shares (m)	1,640.1
52-Week Range (INR)	77/36
1,6,12 Rel. Perf. (%)	6/10/-19
M.Cap. (INR b)	86.9
M.Cap. (USD b)	1.6

**CMP: INR52****TP: INR65****Buy**

Year End	Net Sales * (INR m)	PAT* (INR m)	EPS (INR)	EPS Gr. (%)	P/E (X)	P/BV (X)	RoE (%)	RoCE (%)	EV/Sales	EV/EBITDA
3/11A	42,944	8,418	5.1	12.5	10.3	1.5	14.8	9.7	-	-
3/12A	61,189	3,314	2.0	-60.6	26.2	1.5	5.8	6.4	2.8	11.8
3/13E	81,635	6,223	3.8	87.8	14.0	1.4	10.6	10.5	2.4	7.7
3/14E	91,302	10,483	6.4	68.5	8.3	1.3	16.2	13.9	2.0	5.8

\* Consolidated

- **1QFY13 adjusted PAT higher than estimates:** During 1QFY13 adjusted PAT stood at INR1.9b v/s our estimate of INR1.6, consolidated PAT boosted by higher generation. JSWEL reported forex loss of INR2.3b pertaining MTM on Buyer's credit availed from bank (USD442m as at Jun-12) towards coal imports and is marked at INR56/USD as at June 2012. Subsidiaries performance was impacted by one-off charges as accelerated depreciation of INR100m led to losses of INR200m at SACMH and at Jaigad transmission, company booked reversal of arrears of INR240m. Raj West recorded improvement in performance with PAT loss INR100m for 1QFY13, vs ~INR450m YoY.
- **Robust operating performance, gross margin on up move:** JSWEL net generation during the quarter stood at ~4.7BUs units (up 95% YoY), led by better PLFs at all the projects. In 1QFY13 gross margin improved to INR2.1/unit, vs lows of INR0.2/unit in 2QFY12. Fuel cost was flat QoQ as entire coal inventory of the last quarter was consumed and benefit of lower prices would be realized from 2QFY13.
- **Key takeaways from Analyst meet:** a) Target to commission all units of Raj West project by Sept-12, hopeful of getting clearance for ~7mtpa production from Kapurdi mines, all units to operate from 3QFY13E, b) Booked entire Vijaynagar capacity for next 12 months at ST realization of INR4.25/unit+, c) Limit Buyer's credit (USD442m as at Jun-12) exposure to USD400m mark to avoid huge forex exposure, and d) fuel cost to see moderation in 2QFY13 as high cost inventory at Ratnagiri is fully consumed in 1QFY13.
- **Valuations and view:** We JSWEL to report consolidated net profit of INR6.2b (up 88% YoY) in FY13E and INR10.5b (up 69% YoY) in FY14E. Stock trades at PER of 8.3x and P/BV of 1.3x (RoE of 16%) on FY14E basis. Maintain **Buy**.

**Quarterly Performance (Consolidated)**

(INR Million)

Y/E March	FY12				FY13				FY12	FY13E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Total Operating Income</b>	12,724	9,965	17,687	20,812	21,915	18,208	20,776	20,736	61,187	81,635
Change (%)	36.5	17.8	64.3	44.6	72.2	82.7	17.5	-0.4	42.5	33.4
<b>EBITDA</b>	3,932	1,182	3,495	5,869	5,834	5,145	6,540	7,334	14,477	24,852
Change (%)	-13.1	-63.6	-1.2	35.5	48.4	335.4	87.1	25.0	-7.4	71.7
Depreciation	1,048	1,098	1,379	1,509	1,697	1,786	2,014	2,245	5,033	7,742
Interest	1,338	1,510	1,995	2,329	2,426	2,450	2,650	2,726	7,172	10,252
Other Income	220	708	288	259	764	425	440	437	1,466	2,066
Extraordinary items	0	868	1,375	-621	2,325	0	0	0	1,613	2,325
<b>PBT</b>	1,766	-1,586	-965	2,910	150	1,334	2,315	2,800	2,125	6,600
Tax	441	-481	-148	607	160	481	834	903	419	2,377
Effective Tax Rate (%)	25.0	30.3	15.3	20.9	106.4	36.0	36.0	32.2	19.7	36.0
<b>Reported PAT</b>	1,326	-1,105	-817	2,303	-10	854	1,482	1,897	1,706	4,223
Exceptional Income/ (Expense)	0	868	1,375	-621	1,915	0	0	0	1,613	1,915
<b>Reported PAT (Post MI)</b>	1,363	-1,089	-827	2,303	34	854	1,482	1,939	1,700	4,308
<b>Adjusted PAT</b>	1,363	-221	549	1,683	1,949	854	1,482	1,939	3,313	6,223
Change (%)	-54.4	-114.3	-60.2	-18.3	43.0	n.a.	170.1	15.2	-60.6	87.9

E: MOSL Estimates

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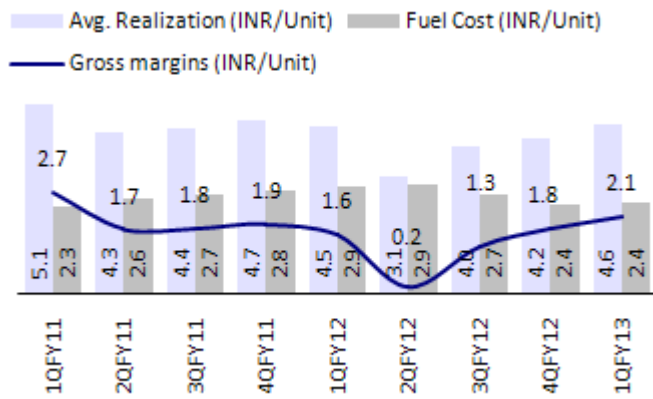
### 1QFY13 consolidated performance partly constrained by one-offs

- **Consolidated:** JSW Energy reported consolidated sales of INR22b (up 72% YoY), EBITDA of INR5.8b (up 48% YoY) and reported PAT of INR34m. PAT adjusted for forex loss (INR2.34b) and exceptional other income (INR410m) stood at INR1.9b, higher than our estimate of INR1.6b. Higher than estimated PAT was driven by higher net generation at 4.7BUs v/s our estimate of 3.8BUs.
- **Standalone (Ratnagiri/Karnataka):** Reported revenues of INR16b, EBIDTA of INR4.5b and reported PAT of INR 569m. Adjusted from forex loss, one time gain in other income, recurring PAT stood at INR2.4b higher than our estimate of INR1.4b. Average realization stood at INR4/unit (vs INR4.5/unit YoY) and fuel cost stood at INR2.7/unit (vs INR2.9/unit YoY and INR2.4/unit QoQ).
- Losses from subsidiaries (Consolidated PAT less Standalone PAT) for 1QFY13 stood at loss of INR470m v/s loss of INR22m QoQ. The losses from subsidiaries are higher despite a positive surprise on Raj West performance. We understand that Raj West PAT loss was mere INR100m, vs ~INR450m YoY. Despite this, consolidated PAT growth was constrained owing to one-offs like: 1) accelerated depreciation of INR100m at SACMH leading to losses of INR200m for SACMH in 1QFY13 and 2) reversal of arrears for Jaigad transmission project of INR240m.
- Reported fuel cost represents actual cost of coal and forex loss in standalone accounts pertain to MTM on Buyer's credit availed from bank (USD442m as at FY12 end) towards coal imports. Supplier of coal is paid based on the terms of trade (normal credit period), based on such buyer's credit availed by JSWEL from banks. Buyer's credit is available for 180-270 days or beyond at a rate of 2.0-2.5% pa. Current MTM was done at INR56/USD as at end June-12. Management indicated that a large part of forex loss (INR2b) is unrealized/notional (realized when payment is done at the prevailing forex rate to bank) and any rupee appreciation would help reverse the same in the coming quarters. Average 1QFY13 exchange rate has been INR54/USD and we factor in INR53.5/USD for FY13 (up from our earlier estimate of INR52/USD).

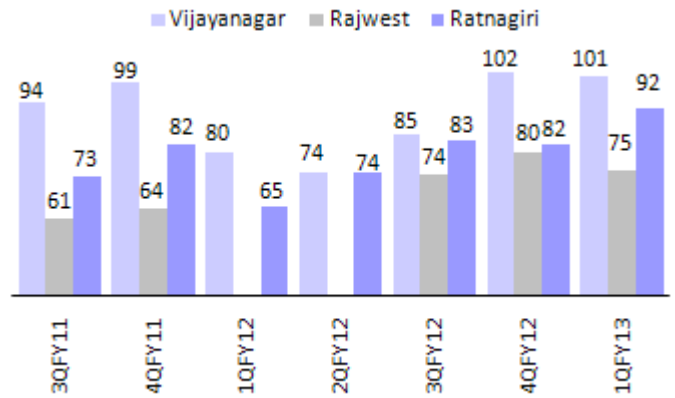
### Better operating rates for projects, gross margin on up move

- JSWEL net generation during the quarter stood at ~4.7BUs units (up 95% YoY and up 2% QoQ). Higher generation is led by better operating rates (PLF) of the 860MW Karnataka at 101% (v/s 80% YoY), 1200MW Ratnagiri at 92% (v/s 65% YoY) and 540MW Rajwest plants at 75%.
- Average realization for the company stood at INR4.6/unit (vs INR4.5/unit YoY) on total sales of 4.7BUs. Fuel cost stood at INR2.4/unit (INR2.9/unit YoY and INR2.4/unit QoQ) on consolidated basis and INR2.66/unit on standalone basis, vs INR2.69/unit QoQ. Gross margin for JSWEL has now further improved to INR2.1/unit, vs lows of INR0.2/unit in 2QFY12. Despite lower coal prices, fuel cost was flat QoQ as entire coal inventory of the last quarter was consumed and thus, benefit of lower coal prices would be realized from 2QFY13 onwards.
- Volumes comprise of LT sale of 2.2BUs (including power conversion), and ST sale of 2.5BUs (~53% of total volumes in 1QFY13 vs 54% QoQ).
- During the quarter SACMH mined 0.11m ton of coal and sold 0.05m ton (Yield loss in washing of 53%).

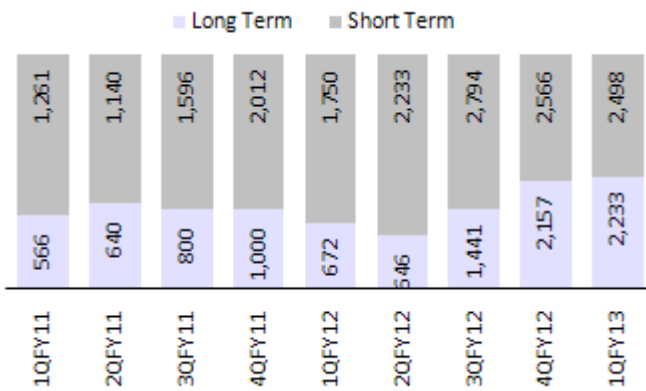
**Gross Margins improves**



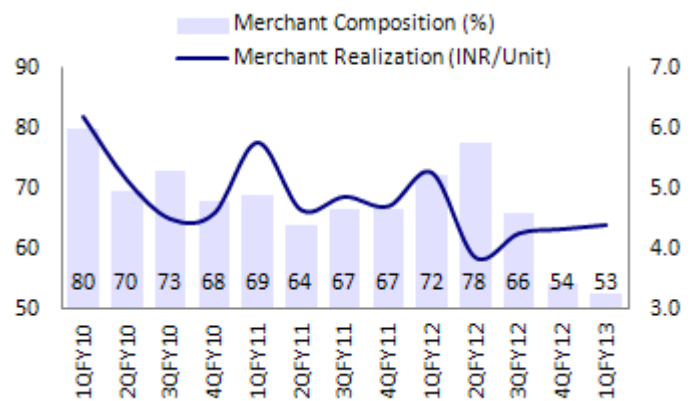
**Operating rates strong (%)**



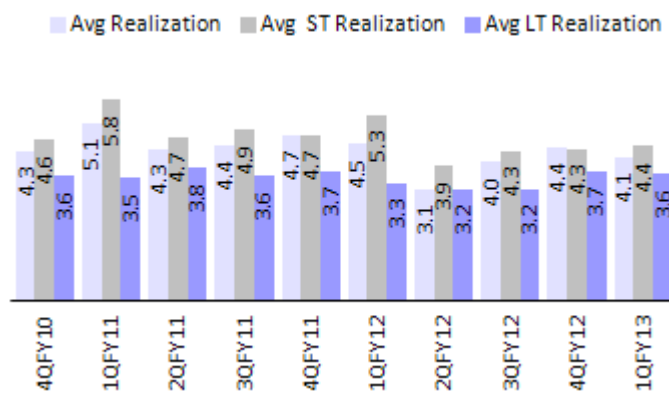
**Sales composition: Higher generation boosted ST Sales (MUs)**



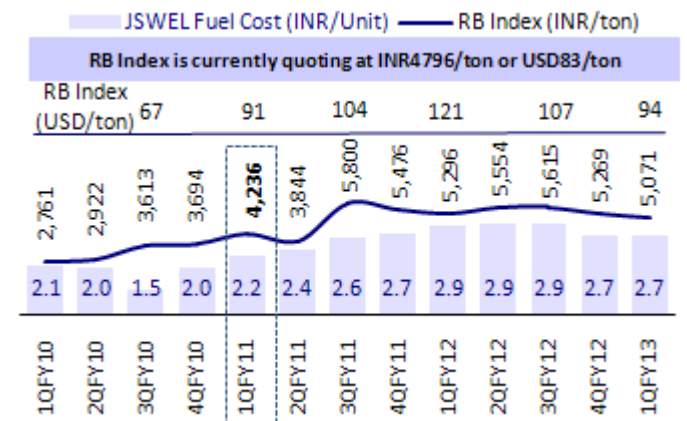
**Merchant contribution Higher**



**ST realization have been steady (INR/Unit)**



**Fuel Cost: Moderation in coming quarters**



Source: Company/MOSL

**Update on under construction/development plants**

- 1080MW Rajwest:** 540MW of capacity is already in operation, while it has synchronized U-V and U-VI (capacity 810MW). Balance two units would be synchronized by 2QFY13. Rajasthan Electricity Regulatory Commission has granted adhoc interim tariff for the first 4 units for FY13 at INR3.34/Unit. Approval of tariff order for the project can thus start post commissioning of all units, which would be a crucial milestone in our view for improved visibility on project returns.

- **Lignite mining:** Barmer mining company (BLMCL) mined 0.84m ton of lignite during 1QFY13 and has incurred ~70% of project cost. For Jalipa mine, company is currently in process of acquiring land.
- **1,200MW Ratnagiri plant:** Commissioning of FGD has been delayed due to major fire and is now expected between Nov-12 to Feb-13 pursuant to an approval from MoEF.
- **1,320MW Chattisgarh:** Project has received MoEF clearance and land acquisition for the project is progressing satisfactorily. JSW Energy has entered into JV with Coal India to extract coal from the associated mine is expected to commence by CY13.

### Analyst meet takeaways

- Target to commission all units of Raj West project by Sept-12, hopeful of getting clearance for ~7mtpa production from Kapurdi mines, all units to operate from 3QFY13E.
- Booked entire Vijaynagar capacity for next 12 months at ST realization of INR4.25/unit+.
- Limit Buyer's credit (USD442m as at Jun-12) exposure to USD400m mark to avoid huge forex exposure.
- Fuel cost to see moderation in 2QFY13 as high cost inventory at Ratnagiri is fully consumed in 1QFY13.

### Valuations and view

- We expect FY13/FY14 consolidated net profit at INR6.2b (up 88% YoY) and INR10.5b (up 69% YoY) respectively. Stock trades at PER of 8.3x and P/BV of 1.3x (RoE of 16%) on FY14E basis. Maintain **Buy**. Adverse rupee movement and coal prices are key risks.

## JSW Energy: an investment profile

### Company description

JSW Energy Limited (JSWEL) is a leading private sector IPP with installed capacity of 2600MW, while 270MW synchronized in 1QFY13 and 270MW is at advanced construction stage. Company has under development portfolio of ~8G with various stages of clearances. JSWEL's business model in the medium term is largely a combination of merchant power sales.

### Key investment arguments

- **Offtake/Fuel mix:** JSWEL's business model in the medium term is largely a combination of merchant power sales and spot coal purchases. Of the 3.1GW operational capacity by FY13E, 44% of the Offtake will be on ST sales and 66% of the fuel purchases will be on spot basis (imported).
- **Beneficiary of lower thermal coal prices:** Global thermal coal indices are down ~35% since their peak in Dec-10, led by changing US energy dynamics, slowdown in demand from China, etc. Even in INR term, the indices are down by ~17% despite rupee depreciation. JSWEL is a key beneficiary with ~1.5GW merchant capacity located in high-deficit consumption regions. For FY12, JSWEL's standalone reported fuel cost at INR2.84/unit (v/s INR2.53/unit YoY), and we expect moderation over 8-10% over FY13E/14E.
- **Front ended capacity addition:** Based on the existing development plans, JSWEL has synchronized 270MW in 1QFY13 will commission 270MW of capacity in 2QFY13. Thus a large part of the capacity

commissioning will be front ended. JSWEL is working on 240MW Kutehr hydro project and 270MW expansion at Raj West, and has additional 6.5GW of thermal project pipeline (55% on imported coal).

### Key investment risks

- JSWEL's business model exposes company to the risk of lower merchant prices and availability/price of imported coal.
- INR depreciation in the past has been steep and is yet to see signs of easing out; volatility too has been high.
- Delay in the approval of Rajwest tariff order could impacted profitability in the interim of an otherwise regulated return project.

### Recent developments

- JSW Energy has synchronized Rajwest's U-V and U-VI in 1QFY13

### Valuation and view

- We expect FY13/FY14 consolidated net profit at INR6.2b (up 88% YoY) and INR10.5b (up 69% YoY) respectively. The stock trades at PER of 8.3x and P/BV of 1.3x (RoE of 16%) on FY14E basis

### Sector view

- The power sector has seen significant valuation de-rating due to concerns over delayed capacity additions, merchant prices, lower demand and fuel supply issues. We are positive about companies that are relatively better positioned on these fronts.

### EPS: Most forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	3.8	3.7	2.9
FY14	6.4	5.2	23.9

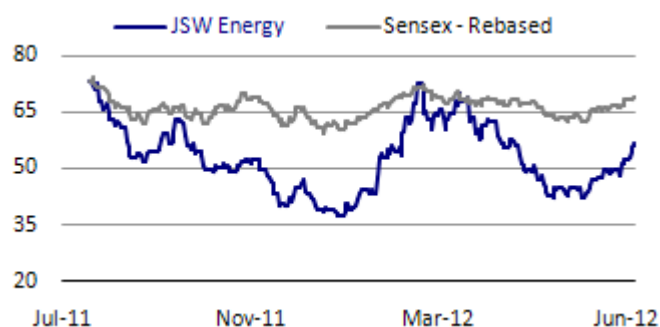
### Shareholding pattern (%)

	Jun-12	Mar-12	Jun-11
Promoter	76.7	76.7	76.7
Domestic Inst	5.9	5.7	5.8
Foreign	9.2	10.3	10.5
Others	8.2	7.2	6.9

### Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
52	65	25.0	Buy

### Stock performance (1 year)



## Financials and Valuations

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
<b>Net Sales</b>	<b>42,944</b>	<b>61,189</b>	<b>81,635</b>	<b>91,302</b>	
Change (%)	82.3	42.5	33.4	11.8	
Operating Expenses	27,302	46,710	56,783	60,063	
<b>EBITDA</b>	<b>15,642</b>	<b>14,478</b>	<b>24,852</b>	<b>31,239</b>	
% of Net Sales	36.4	23.7	30.4	34.2	
Depreciation	2,668	5,033	7,742	8,841	
Interest	4,325	7,172	10,252	10,105	
Other Income	1,332	1,466	1,656	1,156	
<b>PBT</b>	<b>9,980</b>	<b>3,739</b>	<b>8,515</b>	<b>13,448</b>	
Tax	1,563	419	2,377	3,070	
Rate (%)	15.7	11.2	27.9	22.8	
<b>PAT before Min. Int.</b>	<b>8,418</b>	<b>3,320</b>	<b>6,138</b>	<b>10,378</b>	
<b>Reported PAT</b>	<b>8,418</b>	<b>3,314</b>	<b>6,223</b>	<b>10,483</b>	
Change (%)	12.9	-60.6	87.8	68.5	
<b>Adjusted PAT</b>	<b>8,418</b>	<b>3,314</b>	<b>6,223</b>	<b>10,483</b>	
Change (%)	12.5	-60.6	87.8	68.5	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Share Capital	16,401	16,401	16,401	16,401	
Reserves and Surplus	40,364	40,600	43,895	52,609	
<b>Share Holder Funds</b>	<b>56,765</b>	<b>57,001</b>	<b>60,295</b>	<b>69,009</b>	
Minority	724	500	415	310	
LT Borrowings	84,709	87,172	106,585	100,455	
Deffered Tax Liabilities	1,562	1,292	1,292	1,292	
Other LT Liabilities	6	14	14	14	
LT Provisions	323	286	286	286	
<b>Non Current Liabilities</b>	<b>86,601</b>	<b>88,764</b>	<b>108,177</b>	<b>102,047</b>	
ST Borrowings	8,512	5,710	5,139	4,625	
Trade Payables	9,704	25,289	4,245	3,439	
Other Current Liabilities	11,771	14,208	0	0	
ST Provisions	1,973	1,516	1,516	1,516	
<b>Current Liabilities</b>	<b>31,959</b>	<b>46,723</b>	<b>10,899</b>	<b>9,580</b>	
<b>Total Equity and liabilities</b>	<b>176,048</b>	<b>192,988</b>	<b>179,786</b>	<b>180,946</b>	
Fixed Assets	134,903	146,446	145,987	142,263	
Non Current Investments	2,389	2,871	3,427	3,427	
LT Loan and Advances	11,552	12,525	12,000	12,000	
<b>Non Current Assets</b>	<b>148,844</b>	<b>161,842</b>	<b>161,414</b>	<b>157,690</b>	
Current Investments	2,453	2,100	2,100	2,100	
Inventories	5,348	7,658	3,179	3,289	
Trade Receivables	7,645	11,760	6,141	6,824	
Cash and Bank Balance	9,779	6,686	4,009	8,100	
ST Loan and Advances	1,509	2,824	2,824	2,824	
Other Current Assets	471	118	118	118	
<b>Current Assets</b>	<b>27,204</b>	<b>31,146</b>	<b>18,372</b>	<b>23,256</b>	
<b>Total Assets</b>	<b>176,048</b>	<b>192,988</b>	<b>179,786</b>	<b>180,946</b>	

E: MOSL Estimates

Ratios					
Y/E March	2011	2012	2013E	2014E	
<b>Basic (INR)</b>					
<b>Adjusted EPS</b>	<b>5.1</b>	<b>2.0</b>	<b>3.8</b>	<b>6.4</b>	
Growth (%)	12.5	-60.6	87.8	68.5	
Cash EPS	6.5	4.1	7.1	11.8	
Book Value	34.6	34.8	36.8	42.1	
DPS	1.0	0.5	0.4	1.0	
Payout (incl. Div. Tax.)	19.5	24.7	9.6	15.0	
<b>Valuation (x)</b>					
P/E		26.2	14.0	8.3	
Cash P/E		12.9	7.4	4.5	
EV/EBITDA		11.8	7.7	5.8	
EV/Sales		2.8	2.4	2.0	
Price/Book Value		1.5	1.4	1.3	
Dividend Yield (%)		0.9	0.7	1.8	
<b>Profitability Ratios (%)</b>					
RoE	14.8	5.8	10.6	16.2	
RoCE	9.7	6.4	10.5	13.9	
<b>Leverage Ratio</b>					
Debt/Equity (x)	1.5	1.5	1.8	1.4	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
<b>PBT before EO Items</b>	<b>9,980</b>	<b>3,739</b>	<b>8,515</b>	<b>13,448</b>	
Add : Depreciation	2,668	5,033	7,742	8,841	
Interest	4,325	7,172	10,252	10,105	
Less : Direct Taxes Paid	-1,563	-419	-2,377	-3,070	
(Inc)/Dec in WC	-8,067	6,784	-27,664	-2,892	
<b>CF from Operations</b>	<b>7,344</b>	<b>22,310</b>	<b>-3,533</b>	<b>26,432</b>	
(Inc)/Dec in FA	28,540	10,014	2,899	4,500	
(Pur)/Sale of Investment:	-9,503	130	-1,544	0	
<b>CF from Investments</b>	<b>19,037</b>	<b>10,143</b>	<b>1,355</b>	<b>4,500</b>	
(Inc)/Dec in Net Worth	2,898	-2,155	0	0	
(Inc)/Dec in Preference C	0	0	0	0	
(Inc)/Dec in Debt	17,675	-3,494	13,702	-6,130	
(Inc)/Dec in Deffered Tax	527	1,698	-13	-2,169	
Less : Interest Paid	-4,325	-7,172	-10,252	-10,105	
Dividend Paid	-1,906	-3,530	-603	-1,562	
<b>CF from Fin. Activity</b>	<b>14,868</b>	<b>-14,653</b>	<b>2,834</b>	<b>-19,966</b>	
<b>Inc/Dec of Cash</b>	<b>3,730</b>	<b>-3,093</b>	<b>-2,677</b>	<b>3,154</b>	
Add: Beginning Balance	6,048	9,779	6,686	4,947	
<b>Closing Balance</b>	<b>9,779</b>	<b>6,686</b>	<b>4,009</b>	<b>8,101</b>	

**N O T E S**

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- |   |    |
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