

Risk/reward turns favourable; upgrade to Buy

Price pullback exaggerated; hit from INR depreciation mitigated by weaker spot coal prices

June 27, 2013

Rating Up from Neutral	Buy
Target price Reduced from 58	INR 54
Closing price June 27, 2013	INR 44
Potential upside	+22.7%

Action: Upgrade to Buy; target price now INR54

We believe that JSWE remains on a good wicket for FY14 relative to its peers – it is among a handful of private IPPs likely to generate FCF and payout dividends in the medium term, operational projects are not subject to the vagaries of domestic coal supply/policy issues, and leverage is in check. Recent INR depreciation does dent earnings, but the hit is mitigated by weaker seaborne thermal prices. We believe that the 27% correction in the stock price during the past month is exaggerated. At current levels, multiples appear sufficiently attractive (FY15F P/B at 0.9x, P/E at 6.7x; FY14F dividend yield at 3.7%) to accumulate the stock.

Earnings revised to build in INR/USD at 60 in the medium term

Factoring in INR/USD at 60 (vs. 54 previously), together with lower seaborne thermal coal prices and inputs from our recent meeting with management, we lower our FY14/15 EPS forecasts by 10%/2%.

Key catalysts: Kapurdi capacity expansion, final tariffs for RWPL

Other catalysts include mitigation of fuel security risk (sign-up of long-term PPAs with fuel cost pass-through); weak 12- to 24-month outlook for thermal coal prices; and FCF deployment toward earnings-accretive M&As.

Valuation: FY15F 1.1x P/B and 8.3x P/E target multiples seem fair

We peg our 12mth TP for JSWE at the 'milestone risk'-adjusted FCFE value of its feasible projects (INR46.6/sh) plus FY14F cash (INR7/sh).

Key risk: Adverse interplay of macro variables dents P&L

Earnings are highly sensitive to the interplay of merchant realizations, seaborne thermal coal prices, and INR/USD variation.

Anchor themes

We believe that IPPs with operating capacity, front-ended capacity pipeline, credible execution capability, high fuel security (sourcing, pricing), and a healthy offtake mix are likely long-term winners.

Nomura vs consensus

Our FY14F normalized EPS is 4% above consensus, but FY15F EPS is 7% below consensus.

Research analysts

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31 Mar	FY12	FY13F		FY14F		FY15F	
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	61,188	89,090	89,578	103,378	103,752	99,788	102,690
Reported net profit (mn)	1,701	9,008	9,036	13,225	10,173	10,833	10,611
Normalised net profit (mn)	3,313	10,543	10,710	13,225	11,946	10,833	10,611
FD normalised EPS	2.02	6.43	6.53	8.06	7.28	6.61	6.47
FD norm. EPS growth (%)	-60.6	218.2	223.2	25.4	11.5	-18.1	-11.2
FD normalised P/E (x)	21.6	N/A	6.7	N/A	6.0	N/A	6.7
EV/EBITDA (x)	11.2	N/A	5.9	N/A	4.6	N/A	4.7
Price/book (x)	1.3	N/A	1.2	N/A	1.0	N/A	0.9
Dividend yield (%)	1.1	N/A	4.6	N/A	4.3	N/A	3.7
ROE (%)	3.0	14.9	15.2	19.0	15.5	13.7	14.5
Net debt/equity (%)	159.9	146.6	149.8	107.1	119.3	84.4	94.9

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on JSW Energy

Income statement (INRmn)

Year-end 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
Revenue	42,944	61,188	89,578	103,752	102,690
Cost of goods sold	-23,721	-36,541	-42,959	-50,297	-52,653
Gross profit	19,222	24,647	46,619	53,456	50,037
SG&A	-5,761	-14,298	-23,800	-26,259	-25,719
Employee share expense	-486	-905	-1,268	-1,479	-1,715
Operating profit	12,976	9,444	21,552	25,718	22,603
EBITDA	15,644	14,478	28,167	33,809	30,695
Depreciation	-2,668	-5,033	-6,615	-8,091	-8,091
Amortisation	0	0	0	0	0
EBIT	12,976	9,444	21,552	25,718	22,603
Net interest expense	-4,325	-7,172	-9,628	-12,145	-10,937
Associates & JCEs	-2	0	-117	-41	-78
Other income	1,332	1,466	1,534	1,659	1,743
Earnings before tax	9,980	3,738	13,341	15,191	13,331
Income tax	-1,563	-419	-2,660	-3,178	-2,653
Net profit after tax	8,418	3,319	10,681	12,013	10,678
Minority interests	1	-6	29	-67	-67
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	8,418	3,313	10,710	11,946	10,611
Extraordinary items	0	-1,613	-1,674	-1,773	0
Reported NPAT	8,418	1,701	9,036	10,173	10,611
Dividends	-1,906	-953	-3,838	-3,052	-2,653
Transfer to reserves	6,512	747	5,199	7,121	7,958

Valuation and ratio analysis

Reported P/E (x)	8.5	42.0	7.9	7.0	6.7
Normalised P/E (x)	8.5	21.6	6.7	6.0	6.7
FD normalised P/E (x)	8.5	21.6	6.7	6.0	6.7
FD normalised P/E at price target (x)	10.5	26.7	8.3	7.4	8.3
Dividend yield (%)	2.3	1.1	4.6	4.3	3.7
Price/cashflow (x)	26.0	5.3	4.4	3.4	3.6
Price/book (x)	1.3	1.3	1.2	1.0	0.9
EV/EBITDA (x)	9.9	11.2	5.9	4.6	4.7
EV/EBIT (x)	12.0	17.2	7.7	6.0	6.4
Gross margin (%)	44.8	40.3	52.0	51.5	48.7
EBITDA margin (%)	36.4	23.7	31.4	32.6	29.9
EBIT margin (%)	30.2	15.4	24.1	24.8	22.0
Net margin (%)	19.6	2.8	10.1	9.8	10.3
Effective tax rate (%)	15.7	11.2	19.9	20.9	19.9
Dividend payout (%)	22.6	56.0	42.5	30.0	25.0
Capex to sales (%)	59.5	26.7	13.9	5.1	7.8
Capex to depreciation (x)	9.6	3.3	1.9	0.7	1.0
ROE (%)	16.1	3.0	15.2	15.5	14.5
ROA (pretax %)	8.9	5.4	11.4	13.5	12.1

Growth (%)

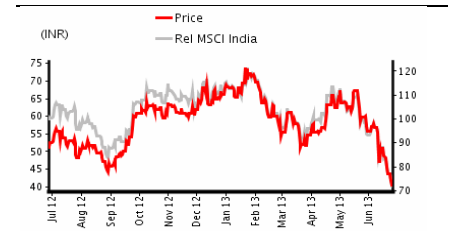
Revenue	82.3	42.5	46.4	15.8	-1.0
EBITDA	28.9	-7.5	94.6	20.0	-9.2
EBIT	20.4	-27.2	128.2	19.3	-12.1
Normalised EPS	12.9	-60.6	223.2	11.5	-11.2
Normalised FDEPS	12.9	-60.6	223.2	11.5	-11.2

Per share

Reported EPS (INR)	5.13	1.04	5.51	6.20	6.47
Norm EPS (INR)	5.13	2.02	6.53	7.28	6.47
Fully diluted norm EPS (INR)	5.13	2.02	6.53	7.28	6.47
Book value per share (INR)	34.61	34.76	37.83	42.17	47.02
DPS (INR)	1.00	0.50	2.00	1.86	1.62

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	-27.3	-15.8	-14.7
Absolute (USD)	-32.9	-23.9	-19.1
Relative to index	-19.1	-14.4	-24.0
Market cap (USDmn)	1,185.1		
Estimated free float (%)	52.9/40.05		
52-week range (INR)	74.9/40.05		
3-mth avg daily turnover (USDmn)	2.06		
Major shareholders (%)	JSW Group Investment Cos 55.9		
	LIC of India 4.9		

Source: Thomson Reuters, Nomura research

Notes

We expect RoE at 15.5% in FY14, 14.5% in FY15.

Cashflow (INRmn)

Year-end 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
EBITDA	15,644	14,478	28,167	33,809	30,695
Change in working capital	-8,068	5,270	-1,353	944	1,248
Other operating cashflow	-4,832	-6,396	-10,453	-13,682	-11,847
Cashflow from operations	2,744	13,352	16,361	21,071	20,095
Capital expenditure	-25,558	-16,361	-12,439	-5,321	-8,020
Free cashflow	-22,814	-3,009	3,923	15,750	12,075
Reduction in investments	-338	-482	157	-524	0
Net acquisitions					
Reduction in other LT assets		0	0	0	0
Addition in other LT liabilities					0
Adjustments	1,070	-664	-216	0	
Cashflow after investing acts	-22,081	-4,155	3,863	15,226	12,075
Cash dividends	-1,906	-953	-3,838	-3,052	-2,653
Equity issue	-368	-66	0	0	0
Debt issue	17,675	3,571	3,823	-9,730	-8,862
Convertible debt issue	0	0	0	0	0
Others	570	-1,842	-1,809	-1,743	-69
Cashflow from financial acts	15,971	709	-1,823	-14,525	-11,584
Net cashflow	-6,110	-3,446	2,040	701	491
Beginning cash	18,341	12,231	8,786	10,825	11,526
Ending cash	12,231	8,786	10,825	11,526	12,017
Ending net debt	84,145	91,161	92,945	82,514	73,160

Source: Company data, Nomura estimates

Notes

Likely to generate FCF in the medium term.

Balance sheet (INRmn)

As at 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
Cash & equivalents	12,231	8,786	10,825	11,526	12,017
Marketable securities	0	0	0	0	0
Accounts receivable	7,637	11,760	18,487	13,514	13,451
Inventories	5,348	7,658	4,415	4,509	4,706
Other current assets	6,977	8,902	8,519	8,741	8,032
Total current assets	32,194	37,106	42,246	38,291	38,206
LT investments	2,389	2,871	2,714	3,239	3,239
Fixed assets	138,834	150,161	155,985	153,214	153,143
Goodwill	171	294	280	280	280
Other intangible assets	2,461	2,556	2,556	2,556	2,556
Other LT assets					
Total assets	176,049	192,988	203,781	197,580	197,424
Short-term debt	0	0	0	0	0
Accounts payable	2,432	4,124	8,817	7,128	6,589
Other current liabilities	18,190	30,125	27,180	25,157	26,368
Total current liabilities	20,622	34,249	35,997	32,285	32,957
Long-term debt	96,376	99,947	103,770	94,040	85,177
Convertible debt	0	0	0	0	0
Other LT liabilities	1,562	1,292	1,524	1,506	1,506
Total liabilities	118,560	135,487	141,291	127,831	119,640
Minority interest	724	500	452	590	667
Preferred stock					
Common stock	16,401	16,401	16,401	16,401	16,401
Retained earnings	40,364	40,600	45,637	52,758	60,716
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	56,765	57,001	62,038	69,159	77,117
Total equity & liabilities	176,049	192,988	203,781	197,580	197,424

Notes

Leverage remains at comfortable levels, in our view, and is likely to drop unless the buildout of the project pipeline picks up.

Liquidity (x)

Current ratio	1.56	1.08	1.17	1.19	1.16
Interest cover	3.0	1.3	2.2	2.1	2.1

Leverage

Net debt/EBITDA (x)	5.38	6.30	3.30	2.44	2.38
Net debt/equity (%)	148.2	159.9	149.8	119.3	94.9

Activity (days)

Days receivable	44.0	58.0	61.6	56.3	47.9
Days inventory	69.7	65.1	51.3	32.4	31.9
Days payable	40.7	32.8	55.0	57.9	47.5
Cash cycle	73.0	90.3	57.9	30.8	32.3

Source: Company data, Nomura estimates

Investment Summary – Upgrade to Buy

We upgrade our rating on JSW Energy (JSWE) to Buy, pegging our 12-month target price at INR54 (previously INR58), implying potential 22.7% upside from the current price. On our revised earnings forecast, which builds in an average INR/USD of 60 (previously 54), we expect FY14 earnings to grow approximately 12%, largely driven by higher contribution from the company's regulated-return business. We lower our FY14/15 EPS forecasts by 10%/2%. At FY15F P/B of 0.9x and P/E of 6.7x, multiples appear attractive; our FCFE-based target price implies FY15F target multiples at 1.1x P/B and 8.3x P/E.

Our investment thesis on JSWE's business model is largely unchanged . . .

As discussed in our *Upgrade to Neutral note (March 4, 2013)*, we maintain that, relative to other private IPPs, JSWE is arguably on a good wicket, considering (1) earnings from operational projects are not affected by uncertainties related to domestic coal supply and policy issues, as they rely on imported coal and lignite for feedstock; (2) the outlook for seaborne thermal prices in CY13/CY14 is benign; (3) the blended merchant tariff realization is likely to sustain at INR4.4/kWh in FY14 and INR4.2/kWh in FY15, given the offtake tie-ups so far; and (4) FCF generation ramps up as the build-out of project pipeline (excluding 240MW Kutehr) is on hold (payout is likely to remain above the typical threshold of 20%).

We continue to acknowledge that the structural risk to earnings remains fairly high – 70% of offtake from JSWE's coal-fired capacity (~50% of its overall capacity) is open-ended (exposed to short-term / merchant tariffs) and 100% of its coal-fired capacity continues to use imported spot coal as feedstock – as earnings remain highly sensitive to the interplay between three variables: merchant tariff realizations; ex-Indonesia and South Africa FoB thermal coal prices; and INR/USD exchange rate variation.

. . . So, why do we upgrade the stock to Buy? Five key reasons...

- *Spike in landed cost of coal partially mitigated by weaker coal prices* – YTD in FY14, although the INR has depreciated against the USD by ~12%, the average spot price of benchmark high-GCV coal (Richards Bay Index) has declined ~4% from US\$85/ton in 4QFY13 to US\$81/ton in the current quarter (the point-to-point decline is 14%, as the current spot price is US\$77/ton), whereas the average spot price of benchmark low-GCV coal (4200GCV ex-Indonesia coal) has declined by ~2% from US\$47.5/ton in 4QFY13 to US\$46.4/ton. Factoring in JSWE's high- / low-GCV coal mix at 1:1 (vs. 1.3:1 in FY12 and FY13) starting in FY14 (per management's guidance), lower high-GCV thermal coal FoB price forecasts, and average INR/USD=60 going forward (vs. INR/USD=54 previously – i.e., 11% depreciation), the variable cost of generation for its coal-fired capacity increases by 5.3% in FY14F and 3.5% in FY15F relative to our previous forecasts.
- *Blended merchant tariff realization likely to sustain at INR4.4/kWh in FY14, INR4.2/kWh in FY15, and INR4/kWh in the long term* – During our recent meeting, management indicated the following: (1) 100%/45% of the offtake from 860MW Vijayanagar facility is tied up for FY14/FY15; (2) offtake from its open-ended 600MW capacity at Ratnagiri will continue to be sold via short-term contracts; and (3), although ex-Ratnagiri tariffs are trending lower (sub-INR4/kWh), blended tariff realization for FY14 is expected to range between INR4.25 and INR4.5 per kWh. Based on this management commentary and already built-in narrower premium of merchant tariffs in South India vs. the national average in context of progressive integration of the Southern Grid with the National Grid starting in 4QFY14, we broadly maintain our FY14, FY15, and long-term merchant tariff realization forecasts at INR4.4/kWh, INR4.2/kWh and INR4/kWh, respectively.
- *Valuations have been beaten down sharply, and the current stock price builds in medium-term INR/USD at 67* – After a 27% decline in the stock price during the past month, the FY15F multiples of 0.9x P/B and 6.7x P/E appear attractive. On our revised earnings forecast, and our FCFE-based valuation methodology, ceteris paribus, JSWE's current stock price builds in an average INR/USD of 67 in the medium term, suggesting the price correction is exaggerated.

- *Mining capacity expansion at Kapurdi, final tariff order for RWPL expected soon* – Post our interaction with the management, we remain confident that the much-awaited mining capacity expansion to 7mtpa at Kapurdi is imminent. We understand that, based on existing 3mtpa lignite production, the entire 1080MW facility can potentially operate at 70-75% PLF for another four to five months. In addition, we continue to build in tariff realization per 'final' tariff orders to be issued by the Rajasthan Electricity Regulatory Commission (RERC) within FY14 wherein the revised project cost of ~INR72bn is approved.
- *FCF generation, low leverage, running operations offers ample flexibility* – In a sector where most private IPPs are grappling with high leverage and large CWIP, JSWE's stronger balance sheet (which does not have any F/X debt other than Buyers' Credit) and open-ended, but operational, capacity offers flexibility to evaluate value-accretive M&As and competitively price its bids for capacity tie-up via into long-term PPAs (after the state discoms invite bids based on the revised standard bidding documents, or SBDs, expected to be issued by the government soon).
- *Near-term equity overhang has played out* – The technical overhang of promoters offloading at least a 1.72% stake sale in the open market, necessitated to comply with the market regulator's (SEBI) 'minimum 25%' free float directive by June 2013, has played out.

In sum, the risk/reward appears favourable at current levels

In our view, JSWE is among the handful of private IPPs that is not highly leveraged, is likely to sustain dividend payout, and likely to generate FCF at least in the medium term, until it begins construction of its 'under development' projects (7.7GW, excluding Kutehr). Assessing the interplay between INR/USD, seaborne thermal coal prices, and merchant tariff realizations in the current environment, we believe that the spread on imported-coal offtake is unlikely to be severely dented despite the substantially weakened INR.

Factoring in medium-term INR/USD at 60, together with a lower seaborne thermal coal pricing outlook (relative to our previous forecast) and largely intact merchant realization and net generation outlook, we expect FY14 EBITDA/EPS to post a 20%/12% YoY growth, before dropping 9%/11% in FY15 on the back of a narrowing spread on the short-term (merchant) offtake from the company's imported coal-fired capacity. We lower our FY14/FY15 EPS forecasts for JSWE by 10%/2%; our FY14F EPS forecast is 4% above consensus, but our FY15 EPS forecast is 7% below consensus.

Fig. 1: JSWE – Old and new milestone risk-adjusted FCFE value (INR/share)

Higher landed cost of coal largely explains the 4% drop in ex-cash our milestone risk-adjusted FCFE for JSWE

Projects	New	Old	Comment / Key reason for variation
OPERATIONAL			
Vijayanagar-I	4.3	4.5	Higher landed cost of coal trims valuation
Vijayanagar-II	8.3	8.4	
Ratnagiri-I	6.3	9.4	Lower merchant tariff assumption / higher coal cost (landed)
RWPL-I	22.5	21.6	Earnings on interim tariff order for FY 13, prospective final tariff order from FY 14 onwards valued at 13% CoE
BLMCL	1.3	1.3	
Jaigad Transco	0.9	0.9	Project commissioned, valued at 13% CoE
Total	43.6	46.1	
WORK IN PROGRESS			
RWPL-II	0.4	0.4	Book value of equity invested; project on backburner
Chhattisgarh	0.7	0.7	Book value of equity invested; project on backburner
Kutehr	1.9	1.4	Back-ended capex (relative to our earlier assumption)
West Bengal	-	-	Book value of equity invested; project on backburner
MJSJ Coal (11% ownership)	0.0	0.0	Book value of equity invested
Total	3.0	2.5	
Value of projects	46.6	48.6	
Cash (INR/sh)	7.0	9.6	
Milestone Risk Adjusted FCFE	53.7	58.1	
Cost of Equity	14.0%	14.0%	

Source: Bloomberg, Nomura estimates

Fig. 2: JSWE – Nomura vs. consensus (INR mn)

Our FY14F normalized EPS is 4% above consensus

	FY13*	FY14F	FY15F
Consolidated Sales			
Nomura	89,578	103,752	102,690
Consensus	84,253	94,986	95,570
Nomura Vs Consensus (%)	6.3	9.2	7.5
Consolidated EBITDA			
Nomura	28,167	33,809	30,695
Consensus	27,062	32,027	31,230
Nomura Vs Consensus (%)	4.1	5.6	(1.7)
Consolidated Net Profit (Normalized)			
Nomura	10,710	11,946	10,611
Consensus	9,216	11,543	11,382
Nomura Vs Consensus (%)	16.2	3.5	(6.8)
Reported PAT			
Nomura	9,036	10,173	10,611
Consensus	8,728	11,518	11,341
Nomura Vs Consensus (%)	3.5	(11.7)	(6.4)

* Updated for reported financials

Source: Bloomberg, Nomura estimates

Fig. 3: JSWE – Change in headline estimates (INR mn)

We reduce our FY14F EBITDA/normalized EPS by 4%/10%

	FY13*	FY14F	FY15F
Revenue			
New	89,578	103,752	102,690
Old	89,090	103,378	99,788
% change	0.5	0.4	2.9
EBITDA			
New	28,167	33,809	30,695
Old	28,006	35,120	30,259
% change	0.6	(3.7)	1.4
Normalized Net Profit			
New	10,710	11,946	10,611
Old	10,543	13,225	10,833
% change	1.6	(9.7)	(2.1)
Reported PAT			
New	9,036	10,173	10,611
Old	9,008	13,225	10,833
% change	0.3	(23.1)	(2.1)

* Updated for reported financials

Source: Company data, Nomura estimates

Fig. 4: JSWE – Key operating/financial metrics

CIF cost of coal to rise 10%/2% in FY14F/15F, long-term merchant tariffs remain pegged at INR4/kWh

	FY12	FY13	FY14F	FY15F
Capacity / Generation				
Capacity (MW) – YE	2,600	3,140	3,140	3,140
Capacity (MW) – Effective	2,235	2,649	3,140	3,140
PLF	76.3%	88.9%	83.9%	84.6%
Gross Generation (mn kWh)	14,938	20,636	23,091	23,284
Sales (mn kWh)	13,684	18,689	21,005	21,184
PPA (% of total)	36.0	47.1	51.4	51.1
Fuel				
INR/USD (Average)	48.0	54.4	60.0	60.0
Coal consumed/required				
Ex-South Africa (High GCV)	5.8	7.4	7.0	7.0
Ex-Indonesia (Low GCV)	2.5	3.3	3.4	3.5
Ex-Indonesia (Low GCV)	3.4	4.1	3.5	3.5
Coal cost (FOB, US\$/ton)				
Ex-South Africa (High GCV)	90	63	61	64
Ex-Indonesia (Low GCV)	118	87	80	83
Ex-Indonesia (Low GCV)	68	45	43	45
Coal cost (CIF, INR/ton)				
Ex-South Africa (High GCV)	5,189	4,477	4,916	5,009
Ex-South Africa (High GCV)	6,731	5,939	6,248	6,374
Ex-Indonesia (Low GCV)	4,050	3,328	3,612	3,664
Realization / cost (INR/kWh)				
Tariff realization (Coal Capacity) - Blended	4.0	4.1	4.0	4.1
Tariff realization - Merchant/short-term	3.9	4.6	4.4	4.2
Fuel cost (Coal) - Blended	2.8	2.5	2.7	2.9

Note: CIF Price = FOB price + sea freight charge to India + import duty.

Source: Company data, Nomura estimates

We continue to deploy a milestone risk-adjusted FCFE-based methodology to value JSWE (elaborated later in this report). Factoring in our revised earnings forecasts, our revised 12-month target price for the stock is INR54 (vs. INR58 previously). At our pegged target price, the stock would trade at 1.3x P/B and 7.4x P/E on our FY14F financials and 1.1x P/B and 8.3x P/E on our FY15F financials.

Key risks to our investment view (rating, earning estimates, and target price)

Risks for JSWE essentially emanate from an adverse interplay in the three key earnings drivers (FoB cost of coal, INR/USD rates, and merchant tariff realizations), shrinking electricity deficit in Maharashtra, scarcity of lignite at RWPL-I, adverse outcome of ongoing tariff-linked litigation, and WIP final tariff orders for long-term PPA capacity.

- *Spike in landed cost of coal* – JSWE's earnings outlook is highly sensitive to the landed cost of coal, which, in turn, is an interplay between FOB price of seaborne thermal coal,

INR/USD exchange rate, and freight rates. Although JSWE hedges ~30% of its fuel-procurement linked Buyers' Credit and has no F/X debt exposure, further depreciation of INR from current levels and/or a sharp uptick in spot price coal and/or higher sea-freight charges could affect our earnings outlook and target price for the stock.

- *Steep decline in short-term tariff realizations / inability to operate open-ended capacity at high utilization levels (PLF)* – Maharashtra and South India are the primary geographies where the bulk of JSWE's open-ended coal-fired capacity is sold. The downtrend in our merchant tariff assumptions reflects (1) shrinking electricity deficit + generation capacity coming onstream over the next two to three years in Maharashtra, and (2) a likely reduction in 'realization premium' in South India from the phased integration of the Southern Grid starting in 4QFY14. However, if realizations / PLF dip are exaggerated, our earnings forecasts and target price could be dented.
- *Scarcity of lignite and lower-than expected tariff recovery in RWPL* – We build in tariff realization per 'final' tariff orders to be issued by Rajasthan Electricity Regulatory Commission (RERC) within FY14, wherein the revised project cost of ~INR72bn is approved. Furthermore, we expect the government's approval for expanding lignite production at the Kapurdi mines (from 3mtpa currently to 7mtpa) in 2QFY14; management has maintained that approval is imminent since earlier this year. A delay in higher lignite production beyond 2QFY14 poses a significant risk to sustain the plant's operations. Moreover, an adverse outcome of ongoing litigation on year 1 tariff (wherein RERC has sought to cap tariff at INR2.34/kWh) and non-approval of the revised project cost entail downside risk to our earnings estimates and target price.
- *Recovery of higher customs duty for coal imported in FY13* – The Indian customs authorities have served notices to various importers of high-grade thermal coal (including JSWE), seeking payment of effective import duty at 11% (rate applicable for 'bituminous coal') for FY13 instead of 1% effective duty applicable for thermal coal imported for generation of power. If the final outcome of this potentially protracted legal battle goes against JSWE, it could entail a material cash outgo for the company, in turn affecting our earnings forecasts and target price.

Fig. 5: JSWE – Earnings and TP sensitivity to key operating/financial assumptions

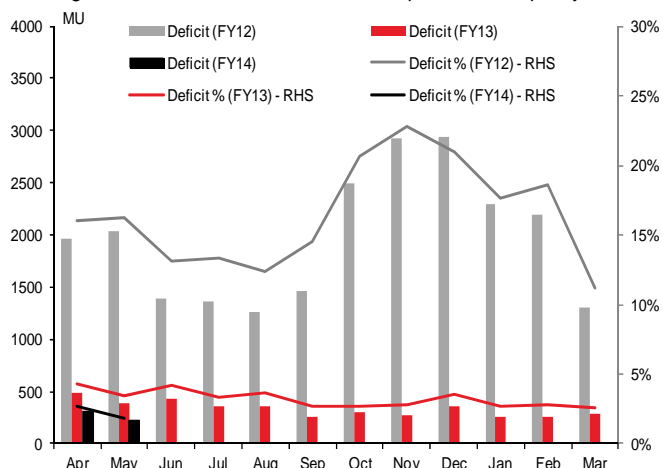
Despite higher contribution by RWPL, EPS highly sensitive to merchant tariffs and landed cost of coal

Sensitivity to key assumptions	EPS (INR/sh)		Adj. FCFE (INR/sh)
	FY14F	FY15F	
FOB cost of Seaborne Thermal Coal			
Base case	7.3	6.5	53.7
+10% change	6.1	5.1	44.0
-10% change	8.4	7.8	62.0
Sensitivity to 1% variation (%)	1.5	2.0	1.6
Landed cost of Seaborne Thermal Coal			
Base case	7.3	6.5	53.7
+10% change	5.5	4.4	39.0
-10% change	8.9	8.4	66.0
Sensitivity to 1% variation (%)	2.3	2.9	2.3
Merchant tariffs			
Base case	7.3	6.5	53.7
+10% change	9.5	8.8	69.0
-10% change	5.0	4.0	37.0
Sensitivity to 1% variation (%)	3.2	3.8	3.1
INR/USD Rate			
Base case (INR/USD : 60)	7.3	6.5	53.7
INR/USD : 56	8.1	7.3	58.7
INR/USD : 58	7.8	6.9	56.3
INR/USD : 62	7.2	6.1	51.4
INR/USD : 64	6.9	5.6	48.6
Sensitivity to 1% variation (%)	1.8	2.1	1.7

Source: Company data, Nomura estimates

Fig. 6: Maharashtra – Electricity Deficit (base load)

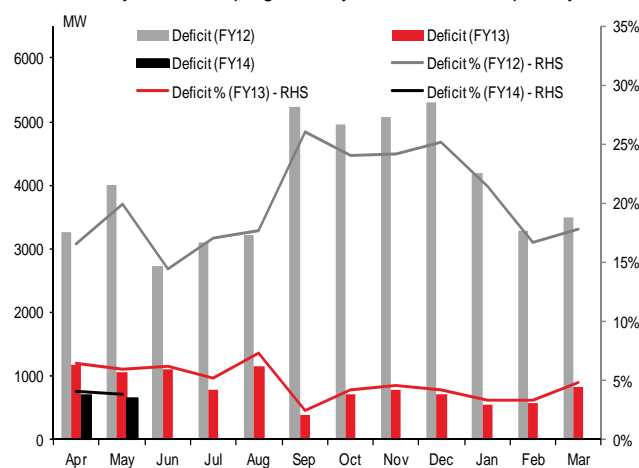
Shrinking deficit raises concern on offtake of open-ended capacity



Source: CEA, Nomura research

Fig. 7: Maharashtra – Peak Electricity Deficit

Peak electricity deficit has progressively reduced over the past 3yrs



Source: CEA, Nomura research

Changes in our key assumptions

- **INR/USD exchange rate** – In line with our house view to keep exchange rates near current levels, we now peg INR/USD at 60.0 (previously INR/USD at 54.0) in our earnings forecasts and FCFE valuation of JSWE.
- **Coal sourcing / pricing** – We peg the high- / low-GCV coal mix (the proxy for high- / low-GCV coal is ex-RSA/ex-INA) at ~50:50 going forward (vs. 56:44 for FY13), in line with management guidance for FY14. Our FoB coal price assumption is derived from our Global Metals & Mining team’s revised thermal coal price forecast (see *Thermal & Coking coal – Downgrading near-term coal price forecasts, dated June 6, 2013*), adjusted for the indicative GCV of coal procured by JSWE and the marginal discount to benchmark prices the company is typically able to secure.
- **Electricity sales volume** – Management commentary on offtake tie-ups at our recent investor conference and during our subsequent interactions suggests that net generation (electricity sales) from its coal-fired capacity could well be in the vicinity of 15.5bn kWh in FY14 vs. previous guidance of 14.5bn at its post-earnings analyst meeting in May. Our FY14 net electricity sales forecast for JSWE is broadly unchanged at ~21bn kWh (including ~15bn kWh from coal-fired capacity); our FY15F net generation forecast is up 2.5% to 21.2bn kWh (including ~14bn kWh from coal-fired capacity).
- **Merchant tariff realizations** – Based on management commentary on offtake tie-ups and likely tariff realizations, we have raised our ex-Vijayanagar realization assumption and lowered our ex-Ratnagiri realization assumption; however, our FY14 and FY15 blended merchant realization forecasts for JSWE are broadly unchanged at INR4.4/kWh and INR4.2/kWh, respectively. Our long-term blended merchant tariff realization assumption is unchanged at INR4.0/kWh.

Fig. 8: JSWE – Changes to key assumptions

We peg FY14F net sales at 21bnkWh, merchant realization at INR4.4/kWh

	FY13*	FY14F	FY15F
Net Generation (MU)			
New	18,780	21,005	21,184
Old	18,849	21,316	20,835
% Change	(0.4)	(1.5)	1.7
Merchant Realization (INR/kWh)			
New	4.7	4.4	4.2
Old	4.6	4.4	4.1
% Change	0.7	(0.2)	1.7

* Updated for reported financials.

Source: Company data, Nomura estimates

Fig. 9: JSWE – Changes to key assumptions (contd.)

We expect unit cost of coal at INR2.7/kWh in FY14, INR2.9/kWh in FY15

	FY13*	FY14F	FY15F
Blended Coal Cost (INR/kWh)			
New	2.5	2.7	2.9
Old	2.5	2.5	2.8
% Change	1.5	5.3	3.5
INR/USD (Average)			
New	54.4	60.0	60.0
Old	54.4	54.0	54.0
% Change	0.1	11.1	11.1

* Updated for reported financials.

Source: Company data, Nomura estimates

Fig. 10: JSWE – Change in imported coal price assumptions and volume mix

High- / low-GCV coal mix broadly based on management guidance

Coal price (US\$/ton, FoB)	FY12	FY13*	FY14F	FY15F	Long Term
Ex-South Africa (High GCV)					
New	118	87	80	83	85
Old	118	87	88	95	85
% change	-	-	(9.4)	(12.6)	-
Ex-Indonesia (Low GCV)					
New	68	45	43	45	43
Old	68	44	43	45	43
% change	-	0.2	(0.3)	(1.1)	-
Low GCV Coal (% of total)					
New	57.5	56.0	50.5	50.4	
Old	57.5	57.5	59.4	59.2	

* Updated for reported financials; pricing assumption derived from our Global Metals & Mining team's coal price forecast, adjusted for GCV.

Source: Company data, Nomura estimates

Financials: FY14 outlook remains robust as FCF kicks in

Rising contribution of RWPL to lend earnings stability

Notwithstanding the rising contribution by RPWL (regulated return business stream) in FY14F and FY15F providing improved earnings visibility/stability, we believe that JSWE's consolidated earnings will remain highly sensitive to the interplay between the following: (1) merchant tariff realizations; (2) ex-Indonesia and South Africa seaborne thermal coal prices; and (3) INR/USD exchange rate variations. About 70% of the offtake from JSWE's coal-fired capacity (~50% of its overall capacity) remains open-ended (exposed to short-term / merchant tariffs), and 100% of its coal-fired capacity continues to use imported spot coal as feedstock. Furthermore, only half of its long-term PPA offtake enables a 100% fuel cost pass-through (see Figures 11, 12, and 14).

We expect normalized EPS to rise 12% in FY14 but decline 14% in FY15

We estimate that the combination of a benign outlook for thermal coal prices, INR/USD reset to 60.0, and growing contribution from the fully operational RWPL-I would drive a 20% YoY rise in FY14F consolidated EBITDA, which in turn would translate into a 12% YoY rise in FY14 EPS. Based on our revised INR/USD assumption and our Global Metals & Mining Team's thermal coal price outlook, we expect the CIF cost of coal (in INR) for JSWE to rise by only ~2% in FY15; however, merchant tariffs are likely to compress as the Southern Grid integrates with the National Grid. Accordingly, we forecast JSWE's consolidated EBITDA/EPS to post 9%/11% declines in FY15.

'Go slow' on project pipeline to enable FCF generation, sustain dividend payout

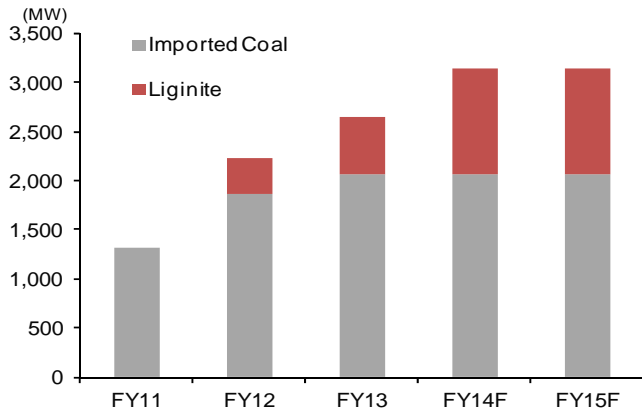
JSWE is among the select private IPPs likely to sustain dividend payout and generate FCF, at least in the medium term until it begins construction of its 'under development' projects (7.7GW, excluding Kutehr), in our view. Post the start-up of the balance 270MW at RWPL-I and FGDs at its Ratnagiri facility by March 2013, we expect capex in FY14 and FY15 to remain fairly low at INR5.3bn and INR8.0bn, respectively. This, together with higher cash flows from RWPL-I (fully operational, realizations eventually being based on final tariff orders), leads us to believe that JSWE will generate FCF from this year onward.

INR/USD remains a key swing factor for consolidated earnings

Although the relatively benign outlook for seaborne thermal coal FoB prices for CY13/14 is positive for JSWE, unless the scenario is combined with a stable/appreciating INR, the benefit would not fully manifest in the company's earnings, in our view. Our blended landed coal cost forecast (in INR) for JSWE implies 10%/2% increases in FY14/15.

Fig. 11: JSWE – Fuel-type capacity split

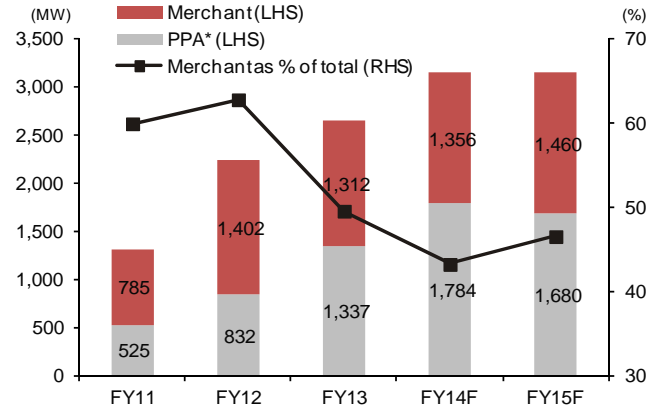
Two-thirds of capacity up to FY15F based on imported spot coal



Source: Company data, Nomura estimates

Fig. 12: JSWE – Offtake split of effective capacity

Nearly 50% offtake to remain exposed to merchant/short-term tariffs

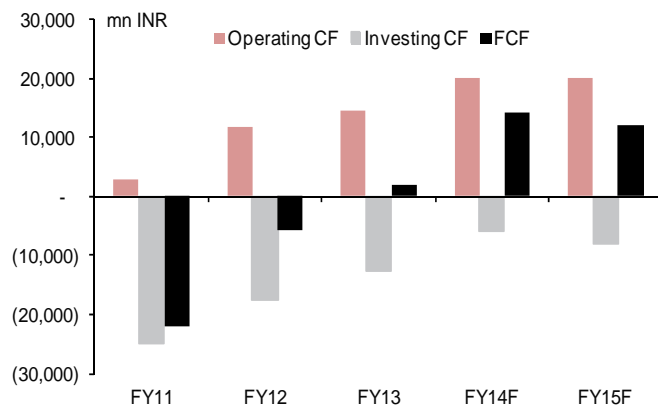


* PPA includes sale on 'Conversion'.

Source: Company data, Nomura estimates

Fig. 13: JSWE – Consolidated free cash flows

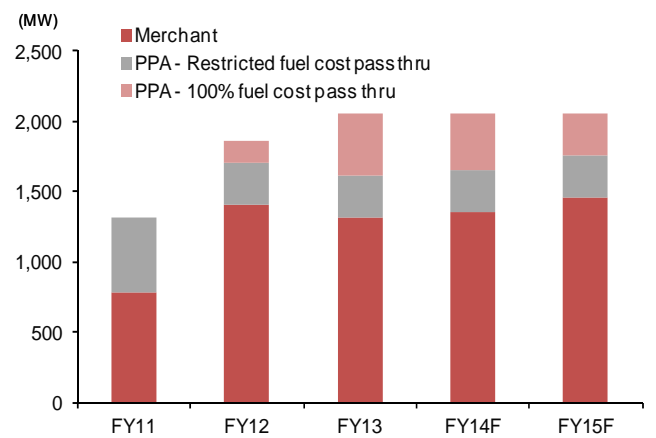
'Go slow' on projects pipeline to enable FCF generation



Source: Company data, Nomura estimates

Fig. 14: JSWE – Offtake split of effective coal-fired capacity

Only half of the PPA-linked capacity has a 100% fuel pass-thru



Source: Company data, Nomura estimates

Fig. 15: JSWE – Coal demand-supply ramp-up (mt)

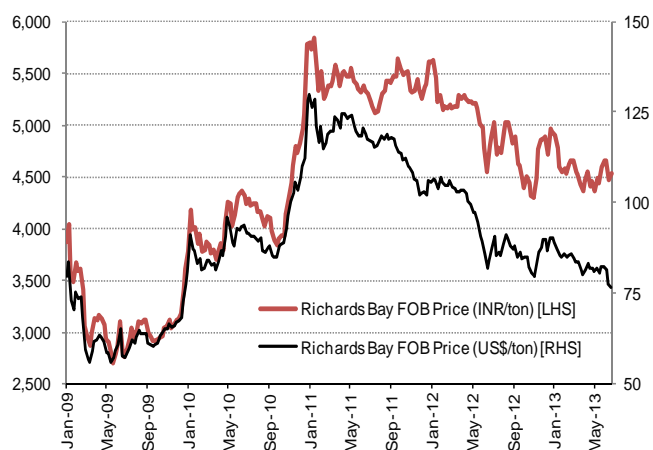
FY14F onwards, we build in a 1:1 split between high/low GCV coal, as per management guidance

	FY11	FY12	FY13	FY14F	FY15F
Coal-fired Capacity (MW)					
Year-end	1,730	2,060	2,060	2,060	2,060
Effective	1,109	1,867	2,060	2,060	2,060
PLF	92%	81%	93%	91%	87%
Gross Generation	8,914	13,302	16,855	16,469	15,715
Coal Requirement (mt)					
Imported	3.5	5.8	7.4	7.0	7.0
Ex-South Africa (High GCV)	3.1	2.5	3.3	3.4	3.5
Ex-Indonesia (Low GCV)	0.4	3.4	4.1	3.5	3.5
Coal Mix (%)					
Domestic	-	-	-	-	-
Ex-South Africa (High GCV)	89.1	42.5	44.0	49.5	49.6
Ex-Indonesia (Low GCV)	10.9	57.5	56.0	50.5	50.4

Source: Company data, Nomura estimates

Fig. 16: Richards Bay coal price index

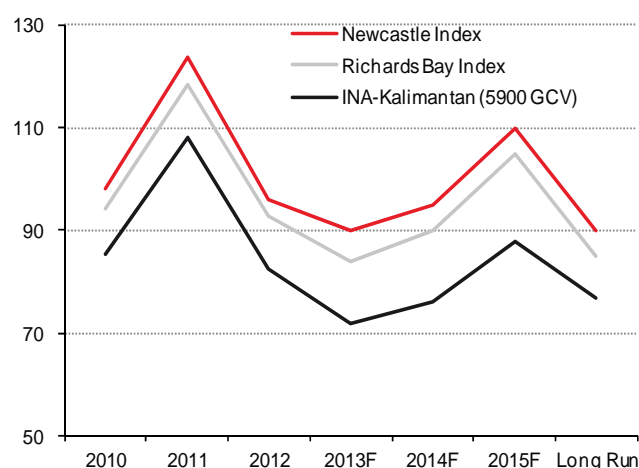
1QFY14 average FoB price is US\$81/ton, down 13% YoY, 4% QoQ



Source: Bloomberg, Nomura research

Fig. 17: Nomura's Global thermal coal price forecasts

Richards Bay coal pegged at US\$85/ton in CY13; US\$90/ton in CY14



Source: Bloomberg, Nomura estimates

Fig. 18: Landed cost of high-GCV coal (Richards Bay) in India

In terms of INR, the CIF cost of RSA coal in 1QFY14 is ~2% higher vis-à-vis the average for 4QFY13

Richard Bay - Coal Price (FOB)

US\$/ton	AVG	QoQ	6mth	12mth	CLOSE	QoQ	6mth	12mth
1QCY12	104.9	-2.1%	-10.0%	-13.6%	103.2	-2.4%	-9.0%	-14.5%
2QCY12	93.5	-10.9%	-12.7%	-22.7%	87.7	-15.0%	-17.0%	-25.1%
3QCY12	89.9	-3.8%	-14.3%	-22.9%	84.6	-3.5%	-18.0%	-25.4%
4QCY12	85.8	-4.6%	-8.2%	-19.9%	90.1	6.5%	2.7%	-14.8%
1QCY13	84.8	-1.1%	-5.7%	-19.1%	80.3	-10.9%	-5.1%	-22.2%
2QCY13*	81.1	-4.4%	-5.5%	-13.3%	76.6	-4.7%	-15.0%	-12.7%

INR/ton	AVG	QoQ	6mth	12mth	CLOSE	QoQ	6mth	12mth
1QCY12	5,276	-3.4%	-1.3%	-3.9%	5,253	-6.4%	-5.4%	-2.4%
2QCY12	5,059	-4.1%	-7.4%	-6.3%	4,878	-7.1%	-13.0%	-6.5%
3QCY12	4,965	-1.9%	-5.9%	-7.2%	4,472	-8.3%	-14.9%	-19.5%
4QCY12	4,648	-6.4%	-8.1%	-14.9%	4,827	7.9%	-1.1%	-14.0%
1QCY13	4,594	-1.2%	-7.5%	-12.9%	4,359	-9.7%	-2.5%	-17.0%
2QCY13*	4,507	-1.9%	-3.0%	-10.9%	4,537	4.1%	-6.0%	-7.0%

Richard Bay - Coal Price (CIF)

INR/ton	AVG	QoQ	6mth	12mth	CLOSE	QoQ	6mth	12mth
1QCY12	6,342	-3.1%	-0.1%	-2.2%	6,326	-6.1%	-4.3%	-0.6%
2QCY12	5,932	-6.5%	-9.4%	-7.0%	5,772	-8.8%	-14.3%	-6.8%
3QCY12	5,853	-1.3%	-7.7%	-7.8%	5,320	-7.8%	-15.9%	-19.5%
4QCY12	5,517	-5.7%	-7.0%	-15.7%	5,688	6.9%	-1.4%	-15.5%
1QCY13	5,462	-1.0%	-6.7%	-13.9%	5,227	-8.1%	-1.7%	-17.4%
2QCY13*	5,555	1.7%	0.7%	-6.4%	5,643	8.0%	-0.8%	-2.2%

Note: We keep freight charges constant at US\$15/ton; CIF = FOB + Freight charges to India + Import duty.

* Up to 21 June.

Source: Bloomberg, Nomura estimates

Fig. 19: Landed cost of low-GCV (4200 kcal/kg, ex-Indonesia) coal in India

In terms of INR, the CIF cost of INA coal In 1QFY14 is ~2% higher vis-à-vis the average for 4QFY13

Indonesia - 4200GCV Coal Price (FOB)								
US\$/ton	AVG	QoQ	6mth	12mth	CLOSE	QoQ	6mth	12mth
1QCY12	57.8	-3.8%	-4.5%	-4.2%	58.6	0.2%	-2.6%	-4.3%
2QCY12	53.4	-7.7%	-11.2%	-13.4%	51.2	-12.7%	-12.5%	-16.7%
3QCY12	45.3	-15.0%	-21.6%	-25.2%	46.4	-9.3%	-20.8%	-22.9%
4QCY12	44.9	-0.9%	-15.8%	-25.2%	44.3	-4.4%	-13.3%	-24.2%
1QCY13	47.5	5.7%	4.8%	-17.9%	48.2	8.6%	3.8%	-17.8%
2QCY13	46.4	-2.3%	3.2%	-13.0%	47.5	-1.5%	7.0%	-7.3%
INR/ton	AVG	QoQ	6mth	12mth	CLOSE	QoQ	6mth	12mth
1QCY12	2,909	-5.1%	4.7%	6.5%	2,982	-3.9%	1.3%	9.2%
2QCY12	2,888	-0.7%	-5.8%	4.9%	2,846	-4.5%	-8.3%	4.0%
3QCY12	2,502	-13.4%	-14.0%	-9.9%	2,452	-13.9%	-17.8%	-16.7%
4QCY12	2,435	-2.7%	-15.7%	-20.5%	2,376	-3.1%	-16.5%	-23.5%
1QCY13	2,573	5.7%	2.8%	-11.6%	2,614	10.0%	6.6%	-12.3%
2QCY13	2,580	0.3%	5.9%	-10.7%	2,812	7.6%	18.4%	-1.2%
Indonesia - 4200GCV Coal Price (CIF)								
INR/ton	AVG	QoQ	6mth	12mth	CLOSE	QoQ	6mth	12mth
1QCY12	3,852	-4.3%	5.7%	7.4%	3,938	-4.0%	1.8%	10.2%
2QCY12	3,738	-3.0%	-7.2%	3.9%	3,719	-5.6%	-9.3%	3.8%
3QCY12	3,365	-10.0%	-12.7%	-7.7%	3,278	-11.9%	-16.8%	-15.3%
4QCY12	3,282	-2.5%	-12.2%	-18.5%	3,212	-2.0%	-13.6%	-21.7%
1QCY13	3,420	4.2%	1.7%	-11.2%	3,463	7.8%	5.6%	-12.1%
2QCY13	3,483	1.8%	6.1%	-6.8%	3,775	9.0%	17.5%	1.5%

Note: We keep freight charges constant at US\$15/ton ; CIF = FOB + Freight charges to India + Import duty.

Source: Ministry of Energy & Mineral Resources (Indonesia), Bloomberg, Nomura estimates

Valuation: 12-month target price trimmed to INR51

Our milestone risk-adjusted FCFE-based valuation methodology pegs JSWE's 12-month target price at INR54, which implies 22.7% upside potential from current levels. In our target price calculation for the stock, together with transmission and mining JVs, we value 3.4GW of JSWE's generation capacity (3.1GW operational, 240MW pipeline), plus equity invested in 1320MW Chhattisgarh and 270MW RWPL-II projects where construction activity is in a 'go slow' mode. We continue to exclude 5.8GW capacity under development but in abeyance (660MW Vijayanagar-III, 3200MW Ratnagiri-II and 1620MW Jharkhand).

Projects continue to be valued on FCFE, adjusted for milestone risk discounts

We continue to deploy a milestone risk-adjusted FCFE-based methodology to value JSWE's power generation projects that appear feasible – i.e., operational and under construction/development but with tangible progress and reasonable likelihood of materializing. The six milestone risks, which capture the risk of a power project from conception to commissioning, apply appropriate discounts to the FCFE value of a given project – in our view, this approach enables investors to objectively view the incremental value ascribed to a project as key prerequisites for commissioning fall into place.

FCFE-based milestone risk-adjusted target price pegged at INR54

Based on our revised earnings forecast, we calculate the milestone risk-adjusted FCFE-based value of JSWE's projects at INR47/share; adding FY14F cash on hand of INR7/share, our 12-month target price for the stock is pegged at INR54. At our target, the stock would trade at 8.3x P/E and 1.1x P/B on our FY15F financials. Key points to note in the milestone risk-adjusted FCFE-based value of projects are as follows:

- We maintain our cost of equity assumption for JSWE's coal-fired operational projects at 14%. We continue to value JSWE's lignite-fired capacity (1080MW at RWPL), Jaigad Transco (transmission JV wherein JSWE holds a 74% stake), and BLMCL (lignite mining JV wherein JSWE holds a 49% effective stake) on an FCFE-basis at 13% cost of equity, as the projects yield a regulated return (i.e., returns on a cost plus basis).
- As construction and development at Chhattisgarh (1320MW) and RWPL-II (270MW) are in a 'go slow' mode, we value the projects at book value of equity invested therein.
- The 43% milestone risk discount for the Kutehr project (3x80MW) reflects (1) the absence of offtake tie-ups (PPAs) and financial closure, and (2) land not being fully in possession.

Fig. 20: India power utilities – milestone risk matrix for applying discount to the FCFE value of private IPP projects

Six milestones for coal/gas/hydro project tracked to bring objectivity to the fair value of a project as it progresses towards commissioning

Milestone	Max Risk	
	Weight	Basis / Methodology
Land Acquisition / Possession	15.0%	% of land required for the plant acquired / in possession [Full (NIL), >2/3rd (7.5%), <2/3rd (15%)]
Environment / Forest Clearances	15.0%	Not available / applied (15%); Stage-I / ToR secured (7.5%); All secured (NIL)
Water Availability	5.0%	No allocation (5%); allocation / sea water availability (NIL)
Financial Closure	15.0%	Not secured (15%), secured and/or 100% debt sanction (NIL)
Fuel Security (Sourcing)	30.0%	
Captive (domestic) *		No environment/forest clearance (15%), land for >50% mining area not acquired/possessed (15%)
Captive (imported)		No firm linkage / ownership (15%), no infrastructure for evacuation (15%)
LoA/linkage		FSA (NIL); LoA (15%); None (30%)
Offtake mix	20.0%	% of capacity tied-up in medium/long term PPA [>85% (NIL), 66-85% (10%), <2/3rd (20%)]
Total	100.0%	

* Risk weight is 15% or 7.5% within each subcategory based on extent of milestone achievement.

Source: Nomura research

Fig. 21: JSWE – FCFE-based price target build

FCFE of operational projects = INR44share (ex-cash)

Projects	JSWE Stake	Capacity (MW)	COD Unit-I	Project Equity	Implied P/B	FCFE (FY14F)		Milestone Discount	Fair Value	
						Project	JSWE		(Rs mn)	(Rs/sh)
OPERATIONAL										
Vijayanagar-I	100%	260	Aug-00	2,760	2.6	7,115	7,115	-	7,115	4.3
Vijayanagar-II	100%	600	Jul-09	4,650	2.9	13,539	13,539	-	13,539	8.3
Ratnagiri-I	100%	1,200	Sep-10	14,250	0.7	10,302	10,302	-	10,302	6.3
RWPL-I	100%	1,080	Nov-09	18,058	2.0	36,916	36,916	-	36,916	22.5
Mining (BLMCL)*	49%			5,400	0.8	4,375	2,144	-	2,144	1.3
Jaigad Transco*	74%		Jul-10	1,424	1.4	2,023	1,497	-	1,497	0.9
Total		3,140		46,542	1.6	74,271	71,514		71,514	43.6
UNDER CONSTRUCTION										
Chhattisgarh**	100%	1,320	Dec-17	1,070	1.0	1,070	1,070	0%	1,070	0.7
Kutehr	100%	240	Mar-18	5,000	1.1	5,558	5,558	43%	3,196	1.9
MJSJ Coal**	11%			77	1.0	77	77	0%	77	0.0
Total		1,560		6,147	1.1	6,705	6,705		4,343	3.0

Project Value (INR mn)		52,766	1.2	81,586	78,829	76,467	46.6
Project Value (US\$ mn)		1,264		1,457	1,408	1,365	
Cost of Equity	14.0%						
Shares outstanding (mn)					1,640		1,640
Value of Projects (INR/share)					48.1		46.6
FY 14F Cash (INR mn)							11,526
FY 14F Cash (INR/share)							7.0
Milestone Risk Adjusted FCFE (INR/share)							54.0

Notes: (1) For milestone discount, we have assigned a 15% weight to Land Acquisition/Possession, a 15% to Environment & Forest Clearances, a 30% to Fuel Security, 5% to Water Availability, 15% to Financial Closure and 20% to Offtake Mix. (2) Exchange rate assumption: INR/USD =56; 3).

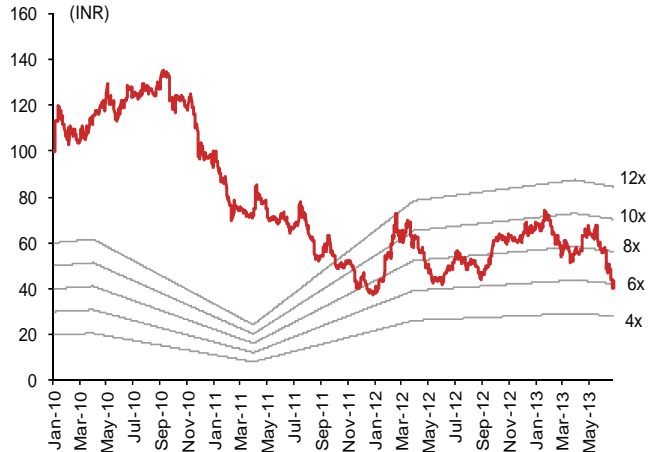
* Valued at CoE of 13%.

** Valued at book value of equity invested.

Source: Company data, Nomura research

Fig. 22: JSWE – 1-yr fwd P/E bands

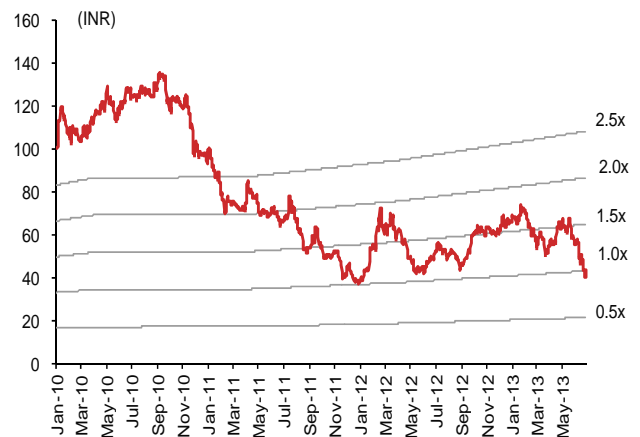
Stock currently trades at 6.1x 1-yr forward P/E



Source: Bloomberg, Nomura estimates

Fig. 23: JSWE – 1-yr fwd P/B bands

Stock currently trades at 1.0x 1-yr forward P/B



Source: Bloomberg, Nomura estimates

Fig. 24: JSWE – domestic peer group valuation comparison

Multiples appear relatively attractive, below industry average on P/E and P/B

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (Local)	P/E			P/B			ROE (%)			EV/EBITDA		
					FY13	FY14F	FY15F	FY13	FY14F	FY15F	FY13	FY14F	FY15F	FY13	FY14F	FY15F
Covered																
Adani Pow er	ADANI IN	Reduce	1,915	40.2	NM	NM	12.5	1.7	1.5	1.3	(2.1)	13.8	11.1	18.8	8.2	7.2
JSW Energy	JSW IN	Buy	1,186	44.0	6.7	5.8	6.7	1.2	1.0	0.9	18.0	18.9	14.6	5.8	4.5	4.6
NTPC	NTPC IN	Buy	19,217	140.3	12.8	11.1	10.3	1.4	1.3	1.2	16.4	12.5	12.6	11.0	9.3	9.3
Pow er Grid	PWGR IN	Buy	8,194	106.6	13.1	10.6	9.0	1.9	1.7	1.5	15.2	17.0	17.9	10.8	9.4	8.6
Reliance Pow er	RPWR IN	Reduce	2,849	61.2	17.8	17.5	10.0	0.9	0.9	0.8	5.4	5.2	8.5	21.4	16.7	11.9
Average					12.6	11.3	9.7	1.4	1.3	1.2	10.6	13.5	12.9	13.6	9.6	8.3
Covered @ TP																
			TP (INR)	Upside												
Adani Pow er			35.0	-13%	NM	NM	10.9	1.5	1.3	1.1				18.3	7.9	7.0
JSW Energy			54.0	23%	8.3	7.1	8.3	1.4	1.3	1.1				5.9	4.5	4.7
NTPC			193.0	38%	17.7	15.3	14.1	2.0	1.8	1.7				14.1	11.7	11.6
Pow er Grid			140.0	31%	17.2	13.9	11.8	2.5	2.2	2.0				12.3	10.6	9.6
Reliance Pow er			94.0	54%	27.3	26.9	15.4	1.4	1.4	1.3				26.2	19.6	13.6
Non covered																
CESC	CESC IN	NR	688	331.4	9.1	8.6	7.4	0.8	0.8	0.7	9.2	n.a	9.5	8.9	7.6	5.5
JPVL	JPVL IN	NR	910	18.7	14.1	8.0	5.0	0.8	0.8	0.7	5.9	10.5	14.3	14.2	10.9	6.8
JSPL	JSP IN	NR	3,125	201.3	6.5	5.3	4.6	0.9	0.8	0.7	14.8	n.a	15.3	6.3	6.0	5.1
KSK	KSK IN	NR	338	54.6	NM	9.8	4.8	0.6	0.6	0.5	4.9	7.0	9.8	16.5	12.7	8.1
NHPC	NHPC IN	NR	3,627	17.8	8.3	8.8	8.0	0.7	0.7	0.7	8.9	n.a	8.4	7.6	7.2	6.4
Satluj Jal	SJVN IN	NR	1,374	20.0	7.9	n.a	n.a	1.0	n.a	n.a	13.0	n.a	n.a	5.3	n.a	n.a
Tata Pow er	TPWR IN	NR	3,209	81.4	NM	15.3	12.2	1.7	1.5	1.3	(0.7)	n.a	11.0	7.8	7.0	6.2
Torrent Pow er	TPW IN	NR	854	108.8	13.3	8.4	7.2	0.8	0.8	0.7	6.5	9.5	10.5	7.3	n.a	n.a
Average					9.9	9.2	7.0	0.9	0.8	0.8	7.8	9.0	11.2	9.2	8.5	6.4
Overall average					11.0	9.9	8.1	1.1	1.0	0.9	8.9	11.8	12.0	10.9	9.0	7.3

Notes: (1) Pricing as of June 27, 2013. (2) NR = Not Rated. (3) RoE calculated in this exhibit is based on normalized earnings, whereas RoE calculated in 'Summary Financials' is based on reported earnings. (4) We are reviewing our TP for Reliance Power

Source: Bloomberg (pricing and consensus forecasts for NR stocks), Nomura estimates

Fig. 25: India power utilities – price performance

JSWE's stock price has corrected by 27% in the past month, primarily triggered by the INR depreciation against the US\$, in our view

Company	B'berg Ticker	Ratings	Current Price (INR)	Absolute price performance (%)					YTD
				1m	3m	6m	12m		
BSE SENSEX	SENSEX	NA	18,876	(6.4)	0.2	(2.3)	11.1	(2.8)	
Private IPPs									
Adani Pow er	ADANI IN	Reduce	40.2	(29.9)	(1.2)	(35.8)	(15.5)	(34.9)	
CESC	CESC IN	NR	331.4	(1.6)	25.1	8.7	16.1	4.3	
Indiabulls Pow er	IBPOW IN	NR	6.5	(22.8)	(21.8)	(56.4)	(53.1)	(55.5)	
JPVL	JPVL IN	NR	18.7	(27.4)	(28.5)	(50.5)	(46.1)	(50.3)	
JSPL	JSP IN	NR	201.3	(34.3)	(42.1)	(54.9)	(53.4)	(55.1)	
JSW Energy	JSW IN	Buy	44.0	(27.4)	(20.4)	(33.7)	(15.4)	(36.0)	
Lanco Infratech	LANCI IN	Buy	6.7	(34.0)	(35.0)	(50.4)	(51.8)	(50.6)	
Reliance Pow er	RPWR IN	Reduce	61.2	(19.1)	(0.6)	(34.2)	(39.7)	(34.5)	
Tata Pow er	TPWR IN	NR	81.4	(10.5)	(15.6)	(25.0)	(17.7)	(26.2)	
Torrent Pow er	TPW IN	NR	108.8	(19.1)	(21.2)	(41.9)	(40.0)	(43.8)	
PSUs									
NHPC	NHPC IN	NR	17.8	(11.0)	(10.6)	(30.7)	(0.8)	(30.3)	
NTPC	NTPC IN	Buy	140.3	(9.5)	(1.2)	(9.8)	(11.0)	(10.3)	
Pow er Grid	PWGR IN	Buy	106.6	(5.3)	0.7	(6.1)	(2.9)	(7.1)	
Satluj Jal	SJVN IN	NR	20.0	(2.0)	5.8	(6.5)	3.9	(6.3)	

Note: Pricing as of June 27, 2013.

Source: Bloomberg, Nomura research

Appendix A-1

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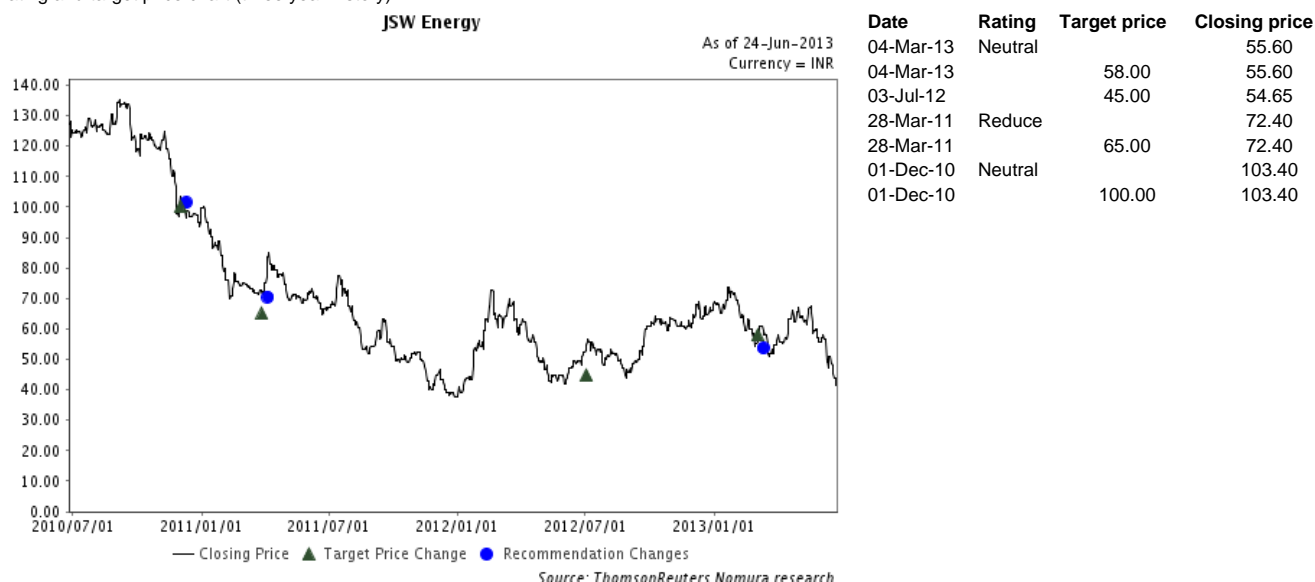
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
JSW Energy	JSW IN	INR 44	27-Jun-2013	Buy	Not rated	

JSW Energy (JSW IN)

INR 44 (27-Jun-2013) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We base our target price for private IPPs, including JSWE, on the milestone risk-adjusted FCFE of operational/feasible projects. We peg our 12-month target price for the stock at INR54, which is the rounded sum of the company's milestone risk-adjusted FCFE of INR47/share + FY14F cash on hand of INR7/share.

Risks that may impede the achievement of the target price Risks to our target price for JSWE include a spike in the landed cost of coal, a steep decline in short-term tariff realizations, an inability to operate open-ended capacity at high utilization levels (PLF), scarcity of lignite, and lower-than expected tariff recovery in RWPL.

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

STOCKS

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