

Barmer shutdown: Limited dent to EPS in FY14

Quick Note

What's new: Barmer project shutdown due to unavailability of lignite

In a filing with the stock exchanges, JSW Energy (JSWE) has stated that Raj West Power (RWPL), its wholly owned subsidiary, has undertaken a shutdown of the 1,040MW (8x135MW) power station at Barmer for around one month due to non-availability of lignite under the fuel supply agreement (FSA). RWPL is exploring various possibilities of securing fuel to ensure that the plant gets into operation by the earliest date.

Background: Management had flagged the risk of a brief shutdown of the Barmer project in the 3QFY14 earnings call

In its 3QFY14 earnings call on January 30, regarding the expansion of mining capacity at the Kapurdi mines and availability of lignite for its Barmer facility, management had stated that:

- Cabinet Committee on Investment (CCI) had cleared the mining capacity expansion to 7mtpa on January 15, Coal Ministry's approval for the same was expected in a 'couple of days' and thereafter, all other consents were expected to be secured in due course.
- Separately, the Ministry of Environment & Forest (MoEF) had accorded Environment Clearance for the expansion of production by 25% (from 3mtpa to 3.75mtpa) under a policy diktat in CY13. As MoEF has since given (on January 7) capacity expansion permission up to 50% under the same diktat, management believes that Kapurdi automatically qualifies for expansion of capacity to 4.5mtpa (vs 3.75mtpa previously).
- If the MoEF approval does not come through shortly, a shutdown of the facility for a 'few days' may be required.

Analysis: Shutdown highly unlikely to last beyond March, in our view

Based on our recent meeting with management, we understand:

- The Coal Ministry's approval for Kapurdi's capacity expansion to 7mtpa has been received; subsequent consents required to augment production as per the expanded capacity are likely to be in place by March 2014.
- MoEF's decision on Kapurdi's qualification for automatic mining capacity expansion to 4.5mtpa following MoEF's January 7 diktat (vs 3mtpa under MoEF's CY2013 diktat) is expected shortly. If MoEF's decision is affirmative, lignite production at Kapurdi can resume immediately (no additional clearances required).
- In the interim, Rajasthan State Government is also looking to facilitate lignite supply to the Barmer facility from nearby State-owned lignite mines (*possibly mines linked to the Giral power project*).

Implications: FY14 EPS hit depends upon shutdown duration; dent unlikely to exceed ~INR0.8/share

- Under PPA terms, the threshold plant availability level (PAF) for fixed cost recovery at Barmer for FY14 is ~73%; for 9MFY14, the deemed PAF was marginally higher than this threshold level.

Global Markets Research

10 February 2014

Rating Remains	Buy
Target price Remains	INR 54
Closing price 7 February 2014	INR 45

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- Accordingly, if the project shutdown lasts only for 2-3 weeks, JSWE may be able to make up for the shortfall in PAF in March, thus not incurring a loss on account of inability to recover the full fixed cost.
- If the shutdown lasts for the remainder of 4QFY14, back-of-the-envelope calculations suggest the fixed cost under-recovery could be INR1.5-1.7bn – this would translate to a reduction of ~INR0.8 in the consolidated EPS for FY14F.

Maintain Buy; stock trades at FY15F 1.0x P/B and 7.0x P/E

In our view risk-reward remains favourable at current levels, with INR/USD depreciation being the key risk; we are currently reviewing our estimates and TP for JSWE. We maintain our Buy recommendation; the stock currently trades at 1.1x P/Book, (BVPS of INR42.2), 6.2x P/E on our FY14F EPS of INR7.3 and 1.0x P/Book (BVPS of INR47), 7.0x P/E on our FY15F EPS of INR6.5.

Appendix A-1

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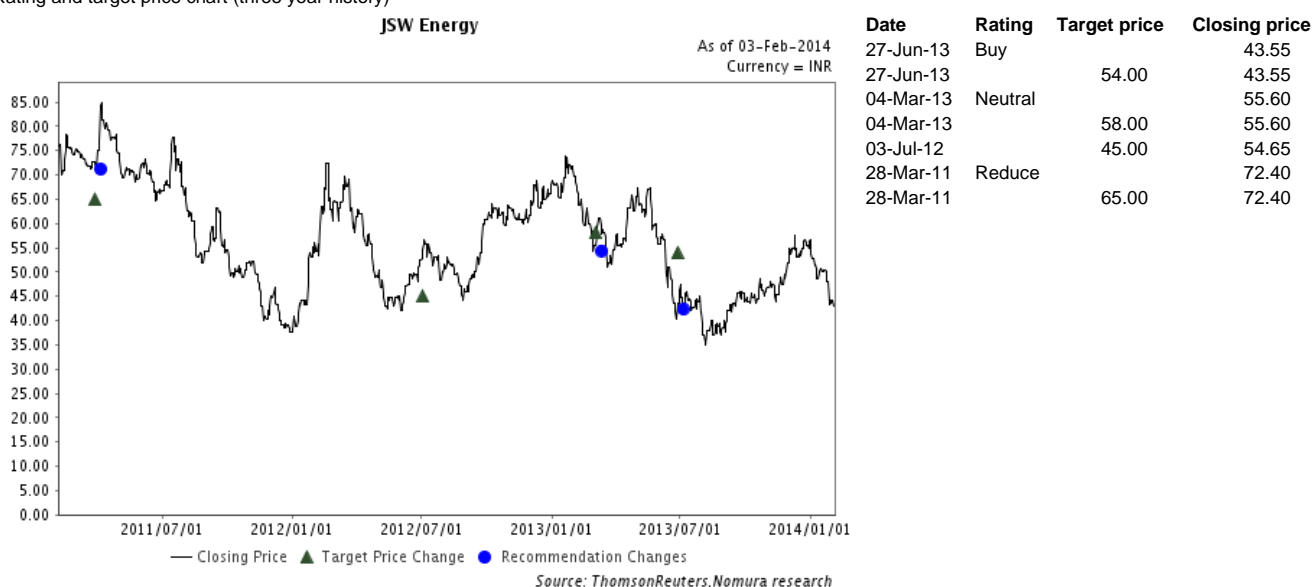
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
JSW Energy	JSW IN	INR 45	07-Feb-2014	Buy	N/A	

JSW Energy (JSW IN)

INR 45 (07-Feb-2014) Buy (Sector rating: N/A)

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 INR 54, which is the rounded sum of the company's milestone risk-adjusted FCFE of INR 47/share + FY14F cash on hand of INR 7/share. The benchmark index for this stock is MSCI India.

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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