December 30, 2022

JSW Energy Limited: Ratings assigned for bank facilities and non-convertible debentures; rating reaffirmed for commercial paper

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Non-fund based	-	1,246.50	[ICRA]A1+; assigned
Long term / Short term – Non-fund based	-	1,371.50	[ICRA]AA (Stable)/[ICRA]A1+; assigned
Fund-based - Cash credit	-	20.00	[ICRA]AA (Stable); assigned
Long term / Short term – Fund based	-	100.00	[ICRA]AA (Stable)/[ICRA]A1+; assigned
Short term – Fund based / Non-fund based	-	50.00	[ICRA]A1+; assigned
Long term / Short term – Fund based / Non-fund based	-	250.00	[ICRA]AA (Stable)/[ICRA]A1+; assigned
Long term – Term loans	-	1,200.00	[ICRA]AA (Stable); assigned
Long term - Proposed term loans	-	1,900.00	[ICRA]AA (Stable); assigned
Long term – Non-convertible debentures	-	425.00	[ICRA]AA (Stable); assigned
Long term – Proposed non-convertible debentures	-	1,000.00	[ICRA]AA (Stable); assigned
Commercial paper	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Total	**1,000.00**	**8,563.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings assigned to JSW Energy Limited (JSWEL) factors in its large scale of operations and a diversified business profile with presence across thermal, hydro and renewable power generation, power transmission and power trading. The availability of long-term power purchase agreements (PPAs) for 85% of the company's operating portfolio of 4784 MW provides long-term revenue visibility and lowers the offtake risk. Moreover, the cost-plus tariff structure for majority of the long-term PPAs ensures stable cash flows and healthy profitability, as seen over the last few years. ICRA notes that JSWEL is looking to expand its capacity to ~9.9 GW from the current portfolio of ~4.8 GW with focus on growing the share of green energy capacity to over 60% from 34% as of September 2022. The ratings consider the long-term PPAs for the upcoming renewable energy (RE) projects at highly competitive tariffs, thereby mitigating demand and tariff risks.

Further, the ratings draw comfort from the healthy operating track record of the thermal power plants having availability and operating efficiencies within the normative levels and the hydropower generation remaining above the design level. The healthy operating track record, along with the sharp jump in short-term power tariffs, has improved the financial performance of the company in FY2022 and H1 FY2023 over the previous years. The ratings also consider the comfortable debt coverage metrics of the company with the debt service coverage ratio (DSCR) expected to remain above 1.5x over the medium term, supported by the long-term PPAs, cost-plus tariff structure, healthy operating efficiencies and competitive cost of financing. The presence of a resourceful promoter group is expected to aid the financial flexibility of the company.

The ratings are constrained by the company's exposure to execution risks pertaining to the ongoing debt-funded capacity expansion in the RE and hydro segments, entailing a capital investment of over Rs. 16,000 crore[1] over the next two to three

[1] Excluding the 300-MW SECI-XII project

years. Further, the company has two large acquisitions in the pipeline – 1.75-GW RE portfolio from the Mytrah Group at an enterprise value of Rs. 10,531 crore[2] and a 700-MW thermal power plant from Ind-Barath for Rs. 1,025.6 crore[3] with an additional investment requirement of ~Rs. 1,650 crore. Post the acquisition, the timely resolution of the operating issues through restoration and optimisation capex for the Mytrah portfolio enabling a ramp up in generation, cost optimisation and timely recovery of payments from the customers remains important to achieve the desired returns from this portfolio. For the 700-MW thermal asset, the competitive capital cost and presence in the coal-producing regions are the positives. Going forward, commissioning within the budgeted timeline and cost remains important.

This apart, the company is participating in other tenders such as battery storage, which would increase the capital investment requirement. The capacity expansion and acquisitions are expected to be funded through a debt and equity mix of 3:1, increasing the leverage level of the company over the near to medium term with the net debt/OPBDITA rising to 4.5-5.5x from less than 2.0x in FY2022. Nonetheless, ICRA draws comfort from the satisfactory progress of the ongoing projects, tie-up of the required debt funding, the track record of the company in developing and operating power assets and healthy debt coverage metrics expected at a consolidated level.

The ratings also factor in the counterparty credit risks for the company on account of the exposure to the state distribution utilities (discoms) that have weak to modest credit profiles. Moreover, the exposure to the state discoms is expected to increase after the acquisition of the Mytrah portfolio. Nonetheless, comfort is drawn from the presence of strong counterparties like JSW Steel Limited (rated [ICRA]AA (Stable)/[ICRA]A1+) and Solar Energy Corporation of India Limited ([ICRA]AAA (Stable)/[ICRA]A1+) for a sizeable portion of the portfolio, a diversified customer mix and the track record of the company in maintaining the receivable position at below 3-4 months over the past few years.

Further, the ratings consider the susceptibility of the untied capacity (~15%) to demand and tariff risks and the dependence of the Ratnagiri and Vijayanagar plants on imported coal, exposing them to international coal prices. Nonetheless, the impact on profitability for the capacity with long-term PPAs is largely mitigated by the availability-linked fixed charges and pass-through of fuel costs in majority of the agreements.

Key rating drivers and their description

Credit strengths

Large scale of operations and diversified business profile – The company's business profile is supported by its presence across thermal, hydro and renewable power generation, transmission, trading and mining businesses, and its large scale of operations. As on September 30, 2022, JSWEL had an operating generation capacity of 4,784 MW [thermal (66%), hydro (29%), renewable energy (5%)] with ~85% of the operational capacity having long-term PPAs, providing revenue visibility and lowering the offtake risk. Further, the cost-plus, regulated nature of tariffs for majority of the long-term PPAs tied up ensures stable cash flows and healthy profitability.

Long-term PPAs at competitive tariffs for upcoming RE projects – The company has tied up long-term PPAs for the upcoming renewable energy projects (~2 GW) with SECI and JSW Steel Limited at highly competitive tariffs, thereby mitigating demand and tariff risks for these projects and providing revenue visibility and profitability growth, going forward.

Healthy operating efficiency and improved financial performance – The thermal power plants have demonstrated a healthy operating track record with the availability and operating efficiencies remaining within the normative levels along with fuel cost pass-through for majority of the PPAs. While the plant availability at the Ratnagiri and Barmer plants were impacted in H1 FY2023 due to maintenance shutdown and lignite mining issues, respectively, these have been resolved and are expected to return to the normative levels. Further, the generation of the hydropower capacity has remained above the design energy

[2] Excluding net current assets

[3] Excludes the CIRP and IMC cost incurred additionally by the company

level for most of the years in the last decade. This, along with attractive tariffs in the short-term market, improved the financial performance in FY2022 and H1 FY2023, thereby generating healthy free cash flows. While the short-term tariffs would moderate with the easing of demand-supply constraints, the profitability growth for JSWEL would be supported by the growing asset base.

Comfortable debt service coverage metrics – The debt coverage metrics are expected to remain comfortable with the DSCR above 1.5x over the medium term, supported by the long-term PPAs, cost-plus tariff structure, healthy operating efficiencies and competitive cost of financing.

Strong financial flexibility as part of JSW Group – JSWEL enjoys strong financial flexibility by being part of an experienced and resourceful promoter group, as demonstrated in its ability to raise funds in the debt market at competitive rates. Also, the company can tap the equity markets to support its growth plans, if needed.

Credit challenges

Execution risks for under-construction assets – The company is exposed to execution risks such as delays in land acquisition and transmission connectivity, pertaining to the significant ongoing debt-funded capacity expansion of 2.5 GW entailing a total cost of ~Rs 16,000[4] crore over the next two to three years.

Capacity expansion and proposed acquisitions to increase leverage level – The capital investment plans remain sizeable over the next 5-7 years, considering the large expansion plans in the renewable energy segment with a capacity target of 10 GW by FY2025 and 20 GW by FY2030. Apart from the capacity under-construction, the company has two large acquisitions underway. This is expected to increase its leverage level over the near to medium term with net debt/OPBDITA of 4.5-5.5x. Nonetheless, ICRA draws comfort from the satisfactory progress of the ongoing projects, tie-up of the required debt funding, the track record of the company in developing and operating power assets and healthy debt coverage metrics expected at a consolidated level. Also, comfort is drawn from the company's commitment to grow the portfolio while maintaining adequate return thresholds and not bidding aggressively.

Counterparty credit risks from exposure to state discoms – JSWEL's portfolio remains exposed to counterparty credit risks from the exposure to the state discoms of Rajasthan, Haryana, Punjab, Uttar Pradesh, Himachal Pradesh and Maharashtra, that have weak to modest credit profiles. Further, the acquisition of the renewable energy portfolio from the Mytrah Group would enhance this exposure to the state discoms. Nevertheless, the receivable position has remained under control with the overall debtor days below 3-4 months over the last five years, resulting from a diversified customer base, the cost competitive tariffs and presence of state government guarantee for the Baspa and Barmer projects. Also, the upcoming RE projects are tied up with strong counterparties like SECI and JSW Steel.

Susceptibility of untied capacity to demand and tariff risks along with exposure to fuel price movement – The untied capacity at the Vijayanagar plant (533 MW out of 860 MW) remains exposed to demand and tariff risks. Further, the dependence of the Ratnagiri and Vijayanagar plants on imported coal renders them susceptible to international coal prices. Nonetheless, the contribution of the untied capacity in the overall mix has reduced over the years to ~15% and the impact on profitability for the tied-up capacity is largely mitigated with the presence of availability-linked fixed charges and pass-through of fuel costs in majority of the long-term PPAs.

Environmental and Social Risks

The environmental risks for coal-based power producers emanate from their exposure to fossil fuels with coal-based power plants being the leading emitters of pollutants and one of the largest industrial users of water. It is important for the power producers to comply with the emission and water consumption norms prescribed by the Government to avoid any disruption

[4] Excluding the 300-MW SECI-XII project

in operations or penalties for non-compliance. While the Ratnagiri and Barmer plants are compliant with the revised emission norms prescribed by the Government of India, the company is making adequate investments to make the Vijayanagar plant compliant with the emission norms, within the timeline provided by the Government. Moreover, the company has set a target to achieve net-zero contributor of greenhouse gases (GHG) emissions by 2050 or earlier and are diversifying their investments towards the renewable energy (RE) portfolio to meet this goal. JSWEL intends to increase its renewable portfolio share to 60% by FY2025, reaching a total capacity of 10 GW and further increase the RE portfolio share to 80% by FY30, reaching 20-GW installed capacity.

JSWEL is also exposed to the risk of natural disasters and extreme weather conditions, which could damage the power generation equipment or transmission lines. Nonetheless, the company avails insurance against such risks. This apart, the company's RE portfolio would remain exposed to the variation in weather patterns which could adversely impact its generation performance.

Given the large land requirement for RE projects, social risks manifest when there are disagreements on compensation between the developers and landowners. Also, the adverse impact of air pollution by coal-based power plants in nearby localities could trigger local criticism. The thermal power projects would also be exposed to labour-related risks and the risks of protests/social issues with local communities. The company develops social investment and development programmes for each site based on local development priorities to mitigate such risks. Further, JSW Energy has put in place a safety organisation structure and conducts various certification programmes, safety audits and assessments to ensure enhanced safety requirements at its sites.

Liquidity position: Adequate

The liquidity position of JSW Energy is expected to remain adequate, with the company being able to meet the debt repayment obligations and the equity requirement of the ongoing projects from its cash flow from operations and the available cash balances and liquid investments. The company has unencumbered cash balances and liquid investments of over Rs. 3,000 crore as on September 30, 2022. The proposed capex of ~Rs. 16,000[5] crore for the under-construction capacity is expected to be funded through debt and equity of 75:25. The debt funding has been tied up for the project SPVs with various lenders. Herein, comfort is drawn from the financial flexibility of the Group in securing debt funding at competitive interest rates.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to achieve a sustained growth in revenues and profitability, led by a scale-up in the generation capacity having long-term PPAs with strong counterparties, thereby strengthening the credit metrics and return indicators

Negative factors – The ratings could be downgraded in case of significant delays in executing under-construction projects, leading to large cost overruns and adversely impacting the liquidity and debt coverage metrics of the company. Further, any increase in receivables from customers adversely impacting the liquidity profile of the company would be a negative trigger. Also, any weakening of the operating performance adversely impacting the profitability and liquidity profile would be a negative factor. A specific credit metric for downgrade of rating is net debt/OPBITDA remaining above 5.0x on a sustained basis.

[5] Excluding the 300-MW SECI-XII project

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers Rating Methodology for Wind Power Producers Rating Methodology for Solar Power Producers Rating Methodology for Power Transmission Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated business and financial profile of the company. The entities considered for consolidation are enlisted in Annexure-2

About the company

JSWEL was incorporated in March 1994 and is the power utility arm of the JSW Group. The promoter and promoter group companies held 74.69% shareholding in the company as on September 30, 2022. The company has its presence across power generation, power transmission, mining and power trading. JSWEL's assets are spread across Karnataka, Maharashtra, Rajasthan, Tamil Nadu and Himachal Pradesh.

JSWEL has an operating generation capacity of 4,784 MW – thermal power of 3,158 MW at Ratnagiri, Maharashtra (1,200 MW), Vijayanagar, Karnataka (860 MW), Nandyal, Andhra Pradesh (18 MW) and a lignite-based power plant at Barmer, Rajasthan (1,080MW); hydropower of 1,391 MW, including Karcham Wangtoo, Himachal Pradesh (1,091 MW) and Baspa, Himachal Pradesh (300MW); and solar power of 235 MW across three states. JSWEL also has a transmission line through a 74:26 joint venture with Maharashtra State Electricity Transmission Company Limited. The project consists of a 400kV double circuit Jaigad – New Koyna (55 km) and Jaigad – Karad (110 km) lines for transmission of the power generated at the Ratnagiri plant (Maharashtra).

Key financial indicators (audited)

JSWEL Consolidated	FY2021	FY2022
Operating income	6,853.4	8,118.6
PAT	805.5	1,734.9
OPBDIT/OI	41.7%	44.4%
PAT/OI	11.8%	21.4%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	2.9	2.5
Interest coverage (times)	3.2	4.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2022 (Rs. crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 30, 2022	Nov 29, 2022	-	-	-
1	Non-fund based	Short term	1,246.5	-	[ICRA]A1+	-	-	-	-
2	Non-fund based	Long / Short term	1,371.5	-	[ICRA]AA (Stable) / [ICRA]A1+	-	-	-	-
3	Fund based – Cash credit	Long term	20.0	-	[ICRA]AA (Stable)	-	-	-	-
4	Fund based	Long / Short term	100.0	-	[ICRA]AA (Stable) / [ICRA]A1+	-	-	-	-
5	Fund based / Non-fund based	Short term	50.0	-	[ICRA]A1+	-	-	-	-
6	Fund based / Non-fund based	Long / Short term	250.0	-	[ICRA]AA (Stable) / [ICRA]A1+	-	-	-	-
7	Term loans	Long term	1,200.0	1,183.0	[ICRA]AA (Stable)	-	-	-	-
8	Proposed term loans	Long term	1,900.0	-	[ICRA]AA (Stable)	-	-	-	-
9	NCDs	Long term	425.0	425.0	[ICRA]AA (Stable)	-	-	-	-
10	Proposed NCDs	Long term	1,000.0	-	[ICRA]AA (Stable)	-	-	-	-
11	Commercial Paper	Short term	1,000.0	-	[ICRA]A1+	[ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short Term - Non-fund based	Very Simple
Long Term / Short Term – Non-fund based	Very Simple
Fund based – Cash credit	Simple
Fund based	Simple
Short Term - Fund based / Non-fund based	Simple
Long Term / Short Term – Fund based / Non-fund based	Simple
Term loans	Simple
Non-convertible debentures	Very Simple
Commercial Paper	Very Simple
Proposed term loans	Simple
Proposed NCDs	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Letter of Credit / Bank Guarantee	-	-	-	1,246.50	[ICRA]A1+
NA	Letter of credit / Bank guarantee	-	-	-	1,371.50	[ICRA]AA (Stable) / [ICRA]A1+
NA	Cash credit	-	-	-	20.00	[ICRA]AA (Stable)
NA	Working capital facilities	-	-	-	100.00	[ICRA]AA (Stable) / [ICRA]A1+
NA	Fund based / Non-fund based	-	-	-	50.00	[ICRA]A1+
NA	Fund based / Non-fund based	-	-	-	250.00	[ICRA]AA (Stable) / [ICRA]A1+
NA	Term loan – I	Dec-2021	-	Dec-2023	500.00	[ICRA]AA (Stable)
NA	Term loan – II	May-2022	-	Mar-2027	700.00	[ICRA]AA (Stable)
NA	Proposed term loan	-	-	-	1,900.00	[ICRA]AA (Stable)
INE121E07353	NCD – I	Mar-2021	7.80%	Feb-2024	175.00	[ICRA]AA (Stable)
INE121E07361	NCD – II	Sep-2022	7.75%	Sep-2025	250.00	[ICRA]AA (Stable)
NA	Proposed NCD	-	-	-	1,000.00	[ICRA]AA (Stable)
NA	Commercial Paper*	-	-	-	1,000.00	[ICRA]A1+

*Source: Company, *Unplaced*

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
JSW Power Trading Company Limited	100.00%	Full Consolidation
Jaigad Power Transco Limited	74.00%	Full Consolidation
JSW Energy (Barmer) Limited	100.00%	Full Consolidation
JSW Hydro Energy Limited	100.00%	Full Consolidation
JSW Energy (Raigarh) Limited	100.00%	Full Consolidation
JSW Energy (Kutehr) Limited	100.00%	Full Consolidation
JSW Future Energy Limited	100.00%	Full Consolidation
JSW Renewable Energy (Vijayanagar) Limited	74.00%	Full Consolidation
JSW Renew Energy Limited	100.00%	Full Consolidation
JSW Renewable Energy (Dolvi) Limited	100.00%	Full Consolidation
JSW Renew Energy Two Limited	100.00%	Full Consolidation
JSW Renew Energy (Raj) Limited	100.00%	Full Consolidation
JSW Renew Energy (Kar) Limited	100.00%	Full Consolidation
JSW Neo Energy Limited	100.00%	Full Consolidation
JSW Energy PSP Two Limited	100.00%	Full Consolidation
JSW Green Hydrogen Limited	100.00%	Full Consolidation
JSW Energy PSP One Limited	100.00%	Full Consolidation
JSW Renew Energy Three Limited	100.00%	Full Consolidation
JSW Renew Energy Four Limited	100.00%	Full Consolidation
JSW Energy PSP Three Limited	100.00%	Full Consolidation
JSW Renew Energy Five Limited	100.00%	Full Consolidation

Company Name	Ownership	Consolidation Approach
JSW Renew Energy Six Limited	100.00%	Full Consolidation
JSW Renew Energy Seven Limited	100.00%	Full Consolidation
JSW Energy Natural Resources Mauritius Limited	100.00%	Full Consolidation
JSW Energy Natural Resources South Africa (Pty) Limited	100.00%	Full Consolidation
South African Coal Mining Holdings Limited	69.44%	Full Consolidation
Royal Bafokeng Capital (Pty) Limited	100.00%	Full Consolidation
Mainsail Trading 55 Proprietary Limited	100.00%	Full Consolidation
SACM (Breyten) Proprietary Limited	69.44%	Full Consolidation
South African Coal Mining Operations Proprietary Limited	69.44%	Full Consolidation
Umlabu Colliery Proprietary Limited	69.44%	Full Consolidation
Barmer Lignite Mining Company Limited	49.00%	Equity Method
Toshiba JSW Power Systems Private Limited	5.30%	Equity Method

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