

JSW Power Trading Company Limited

January 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Non-fund-based - ST-BG/LC	75.00	CARE A2+ (A Two Plus)	Reaffirmed
Total	75.00 (Rs. Seventy Five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of short-term rating assigned to bank facilities of JSW Power Trading Company Limited (JSPTL) continues to derive strength well established and experienced promoter group (i.e. JSW Energy Limited, JEL rated CARE A+; Stable/ CARE A1+) in power industry and availability of merchant power capacities with JSW Energy Limited and its subsidiaries/associates. However, the rating strength continues to be tempered by counter party risk and regulatory risk related to power trading margins.

Rating Sensitivities

Positive rating sensitivities

- Increase in power trading volumes above 1 Billion Units on sustained manner

Negative rating sensitivities

- Decrease in the power trading volumes below 500 Million Units on sustained manner and weakened support from JSW Energy Limited
- Deterioration in operational performance and collection efficiency of the company
- Rating downgrade of JSW Energy Limited

Detailed description of the key rating drivers

Key Rating Strengths

Well established and experienced promoter groups in power industry

JSPTL is a wholly owned subsidiary of JEL. Incorporated in 1994, JEL is the holding company for JSW group's power business. As of March 31, 2020 JSW group's consolidated operational capacity stood at 4.5 GW. JEL has qualified, professional and experienced management team with significant experience in the power sector. JEL also provides operation & maintenance services for power plants of the group companies and project management services for the power plants being set up by the group. JEL has successfully set up and is operating 860 MW thermal power plant at Vijaynagar, Karnataka, and a 1,200 MW imported coal based plant at Ratnagiri, Maharashtra. JEL, through JSW Energy (Barmer) Limited (subsidiary of JEL) owns and operates a 1,080 MW lignite based power plant in Barmer, Rajasthan. JEL has presence in renewable segment through operations of hydro project capacity of 1,300 MW in Himachal Pradesh and 10 MW solar capacities across various locations. JEL extended support to the company in form of unsecured borrowings (comprising of unsecured loan, advances and preference shares) amounting to Rs. 13.20 crore as on March 31, 2020 as compared to Rs. 17.28 crore as on March 31, 2019.

Availability of merchant power capacities with JEL and its subsidiaries/associates

JSPTL majorly sells power procured from JEL on merchant basis. The company sells power to various state utilities and power exchanges (i.e. Power Exchange of India Limited and Indian Energy Exchange Limited). JEL through its plant located at Ratnagiri, Vijayanagar sells power generation from around 20% of total capacity on short term/merchant basis. In addition to sale of power from JEL, the company also sells power generated from JEL subsidiary i.e. JSW Hydro Energy Limited (rated CARE A+; Stable/CARE A1+) and associate i.e. JSW Steel Limited (rated CARE AA-; Stable/CARE A1+). The company has extended advance to JEL towards purchase of power. As on March 31, 2020 the advance for purchase of power stood at Rs. 110.67 crore as compared to Rs. 118.36 crore as on March 31, 2019. Any moderation in plant operation of these entities might impact the overall volume traded for the company.

In FY20, the volume sold of power dipped by around 65% as compared to FY19 on account of lower availability of power for sale on merchant basis by power generating companies. As a result, the company reported loss at PBILDT level. However, the company serviced interest & finance expenses through non-operating income related to interest on income tax refund and others amounting to Rs. 0.63 crore.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Key Rating Weaknesses

Counter party risk

JSPTL customers include state power entities. The financial risk profile of these entities is relatively weak. Any delay in receipt of payment of dues from these entities might impact the operational performance of the company. A surcharge is payable on delay in receipt of payment (beyond 90 days) by the purchaser which is pass-through to seller of power.

JSPTL majorly trades power procured from JEL. By virtue of being parent company, JEL extends higher credit period. As a result the company is able to meet working capital requirements.

Regulatory risk related to power trading margins

Power trading licensees are regulated by Central Electricity Regulatory Commission. CERC though Central Electricity Regulatory Commission (Procedure, Terms and Conditions for grant of trading licence and other related matters), 2020 regulates the power trading margins. As per regulations:

- For transactions under short term contracts and contracts through power exchanges upto one year, the Trading Licensee shall charge a trading margin of not less than zero (0.0) paise/kWh and not exceeding seven (7.0) paise/kW.
- For transactions under long term contracts, the trading margin shall be decided mutually between the Trading Licensee and the seller.
- For banking of electricity, the Trading Licensee shall charge a cumulative trading margin of not less than zero (0.0) paise/kWh and not exceeding seven (7.0) paise/kWh.
- For transactions under Back to Back contracts, where escrow arrangement or irrevocable, unconditional and revolving letter of credit is not provided by the Trading Licensee in favour of the seller, the Trading Licensee shall not charge trading margin exceeding two (2.0) paise/kWh.
- For Cross Border Trade of electricity, the trading margin shall be decided mutually between the Trading Licensee and the seller.

Any adverse changes in regulation might impact the operational performance of the company.

Industry Outlook

With the resumption of economic activities gathering pace, business and commercial activity is expected to be higher in the remainder of the financial year. This would result in higher power demand and consequently electricity generation. However, the extent and sustainability of the same would be contingent on the pickup in industrial and commercial demand. Further, with the persistent high number of Covid-19 infections in the country, there is uncertainty regarding the imposition of fresh restrictions/lockdowns in the country which would impact economic activity and thereby power consumption.

For the full year FY2020-21 electricity demand and the consequently generation is likely to contract given the sharp fall in industrial and commercial activity during the year. Moreover, even with the unlock process, economic activity is unlikely to attain pre-lockdown level of activity in the current financial year.

Liquidity analysis:

Liquidity: Adequate

Free cash and bank balance of company stood at Rs. 2.50 crore as on September 30, 2020 which would be adequate to meet the interest servicing of around Rs. 0.29 crore in FY21. Further, there is no principal repayment of debt in FY21. There is no proposed capital expenditure in the company. During FY20 there was infusion of funds to tune of Rs. 0.63 crore towards debt servicing (i.e. interest). CARE continues to take into cognizance of support extended by JEL to the company towards meeting debt obligations.

Analytical approach: Standalone

While assigning rating of JSPTL, CARE continues to consider operational linkage with JEL and its subsidiaries towards sale of power on merchant basis.

Applicable Criteria

[Criteria on assigning rating outlook and credit watch](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Wholesale Trading](#)

About the Company

JSW Power Trading Company Limited (JSPTL), a wholly owned subsidiary of JSW Energy Limited (JEL, (rated CARE A+; Stable/CARE A1+) is engaged in business of trading of power, buying & selling of Solar Photo Voltaic panels, components and parts. The company holds Category- IV trading license issued by Central Electricity Regulatory Commission (CERC). The company majorly procures power from JEL and its subsidiaries as well as third party power generators.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1064.06	310.34
PBILDT	4.66	-0.22
PAT	1.62	-0.90
Overall gearing (times)	0.05	0.02
Interest coverage (times)	1.63	-0.35

A: Audited

CARE has adjusted financials of JSPTL for analytical purpose.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	75.00	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	75.00	CARE A2+	1)CARE A2+ (10-Sep-20)	1)CARE A2+ (20-Mar-20) 2)CARE A2+ (Under Credit watch with Negative Implications) (17-Oct-19)	1)CARE A2+ (28-Dec-18)	1)CARE A2+ (04-Jan-18)

Annexure-3: N.A.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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