

## India Ratings Assigns JSW Hydro Energy 'IND AA-'; Outlook Stable

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By [Shreyas Vaidya](#)

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India Ratings and Research (Ind-Ra) has assigned JSW Hydro Energy Limited (JSWHEL) a Long-Term Issuer Rating of 'IND AA-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan			FY30	INR51,721	INDAA-/Stable	Assigned
Fund based limit				INR800	INDAA-/Stable/IND A1+	Assigned
Non-fund-based limit	-	-	-	INR2,300	IND A1+	Assigned

**Analytical Approach:** Ind-Ra has taken a consolidated view of JSWHEL and its 100% subsidiary, JSW Energy (Kutehr) Limited, for arriving at the ratings, because of the operational and strategic linkages between the entities.

### KEY RATING DRIVERS

**Operations Under Cost-plus Model and PPA Ensure Cash Flow Visibility:** JSWHEL operates two hydro power plants, Karcham Wangtoo (KWHEP-1000MW) and Baspa Hydro Power Plant (BHPP-300MW), under the cost-plus return on equity (16.5% post tax for KWHEP and 16% for BHPP), with reasonable cost recovery. At end-FY20, JSWHEL's regulated equity stood at INR24.5billion (KWHEP - INR19.5 billion; BHPP - INR4.9billion) and regulated debt at INR15.3 billion (KWHEP: INR15.3 billion; BHPP: INR50 million). Additionally, the cash flow visibility is high, given the long-term power purchase agreement (PPA) and the high residual life of the same at 25 years and 22 years for KWHEP and BHPP, respectively. For KWHEP, while the Central Electricity Regulatory Commission has approved the tariff order for FY14-FY19, the true-up and tariff order for FY19-FY24 is pending. For BHPP, the tariff true-up has been completed till FY19 and the multi-year-tariff for FY20-FY24 has been approved.

**Efficient Operations leading to Healthy Incentive Income:** JSWHEL's efficient operations have led to healthy incentive income through secondary energy sales, unscheduled interchange incentives and capacity charge incentives, which have been supporting the cash flow generation. JSWHEL earned healthy incentive income of over INR1 billion annually over FY17-9MFY21. Ind-Ra expects the capacity incentives to decline in the medium term in line with the decline in the annual fixed cost for KWHEP, given the decline in depreciation.

**Debt Higher than Regulated Levels:** JSWHEL's actual term debt (ATD) stood at INR51.7 billion at 10MFYE21 and INR54.23 billion at FYE20, higher than the normative closing regulated debt (RD) (BHPP:INR50 million ; KWHEP: INR15.3 billion) as of FYE20. This is because JSWHEL had acquired the plants from Jaiprakash Power Ventures Limited (JPVL) for INR92.75 billion in September 2015, which was funded by equity of INR12.5 billion from the parent entity, JSW Energy Limited (JSWEL; 'IND AA-/Stable'), and the balance amount through a mix of parent debt raised by way of non-convertible debentures (NCDs) and bank loans. Given the cash flows, JSWHEL completely repaid the NCDs to JSWEL over FY16-FY20.

The entire regulatory debt for BHPP has been paid. For, KWHEP the regulatory debt would be repaid by FY25. The servicing of the remaining debt is likely to be carried out through the post-tax return on equity (RoE), depreciation allowed and the incentive income generated. Ind-Ra estimates a post-tax RoE of INR4billion beyond FY25 and healthy incentive income. Given the delta between the RD and ATD, any lowering of the RoE and/or lower cash flows on account of changes in regulatory framework would bring down the cash flows and reduce the DSCRs beyond FY25. However, assuming the continuation of the same regulatory framework, the size of the debt repayments is in line with the cash flows, with a bullet repayment of INR28.8 billion in FY30. The bullet is likely to be refinanced, given the healthy revenue visibility over the remaining tenor of the PPA extending up to FY47.

**Upgrading of Karcham Capacity Likely:** KWHEP's operational capacity stands at 1,000MW; however, the plant has the capability to go up-to a rated capacity of 1091MW, and thus, with 10% overloading, to a total capacity of 1200MW. The petition for the same is pending with Central Electricity Authority (CEA). If accepted by the CEA, there is a provision of entering into an additional long-term PPA or selling in the merchant market, which will result in incremental cash flows. There will be no payment to JPVL on account of the uprating. This is because, pursuant to the restructuring agreed with JPVL in 2QFY20, both JPVL and JSWHEL have agreed to forego their respective rights and obligations in relation to the Securities Purchase Agreement for the transfer of the Karcham and Baspa hydro assets

**Strong Deleveraging Historically; Leveraging to Begin:** JSWHEL has reduced its borrowings steadily through efficient operations, the regulated nature of

operations and strong cash flow from operations (post interest expense) (INR10.1 billion in FY20 (FY19: INR7.0 billion), resulting from annual EBITDA of INR11billion). The borrowings fell to INR51.7 billion at end -January 2021 (FYE20: INR54 billion; FYE17: INR81.5 billion). Consequently, the net debt/EBITDA remained below 4.5x in 9MFY21 (FY20:5.1x; FY19: 5.6x). However, as per Ind-Ra's estimates, JSWHEL's net leverage is likely to increase intermittently to exceed 5x in FY23 due to the debt that would need to be raised for funding the capital expenditure for the Kutehr project and the cash flows required to meet the equity commitment of the project.

**Capacity Expansion Underway through Kutehr Project:** JSWHEL is developing the 240MW Kutehr hydroelectric plant at a project cost of INR27.5 billion, which would be funded in a debt-equity ratio of 67:33. The sanction for lender appraised debt of INR18.29 billion has been received and financial closure is likely to be completed latest by 1QFY22. At end-January 2021, JSWHEL had infused INR5 billion out of the total requirement of INR9.5 billion. Being a hydro project, Ind-Ra considers the construction risk to be high in the form of time and cost over-runs. However, the agency draws comfort from JSWHEL's track record.

The PPA for the hydro project is likely to be signed by 1QFY22 with the discom of Haryana before commissioning, unlike other hydro projects wherein the PPAs are signed closer to the commercial operations date. The Kutehr project, despite having a high capital cost/MW, will have a levelized ceiling tariff of 4.5/kWh at bus bar (tariff to be determined by HERC u/s 62 of the Electricity Act, after signing of the PPA) post revising the depreciation life to 40 years and back-ended sharing of free energy to the home state. However, till the PPAs are signed, Ind-Ra believes tariff risks would persist, as renewable tariffs could decline as the hydro asset comes onstream. Furthermore, Ind-Ra draws comfort from the recent issuance of the hydro power obligation trajectory, which signifies the importance of hydro assets, by the Ministry of Power.

**Liquidity Indicator - Adequate:** JSWHEL had cash balances of INR5.52 billion at 9MFYE21 (FY20: INR14 million; FY19: INR461 million). The company had fund-based limit and non-fund-based limit of INR0.8 billion and INR2.3 billion, with average utilisation of 5% and 87%, respectively, over the 12 months ended January 2021. The limits have a one-way fungibility from fund-based to non-fund based. The company has repayments due of INR3.1 billion in FY22 and INR3.3 billion in FY23, with finance cost of INR4 billion-4.5 billion against EBITDA generated of around INR11 billion. The debt repayments are aligned during 2QFY21 and 3QFY21, which are periods of maximum generation. Therefore, Ind-Ra expects the debt service coverage ratio to remain above 1.4x over FY22-FY23. JSWHEL has incurred a capital expenditure of INR2.5 billion till date in FY21, and plans to incur capex of INR20-25 billion over FY22-FY24, which will be funded through a combination of debt and equity. As on FYE20, JSWHEL also had consolidated financial liabilities of INR3billion towards capital payable to JSWEL with regards to the acquisition of Kutehr project and INR6.27 billion of other payables for the provisions against the true-up exercise.

**Counterparty Risk Managed:** JSWHEL's receivables, including unbilled revenue, decreased to INR2.3 billion in 9MFY21 (FY20: INR3 billion; FY19: INR2.0 billion). JSWHEL's ability to keep debtors under control would remain a key monitorable, given the weak financial position of the discoms. Additionally, JSWHEL has received letter of credit (LC) for one-month peak bill for both KWHEP and BHPP Baspa projects from PTC India Limited and the Himachal Pradesh State Electricity Board.

## RATING SENSITIVITIES

**Positive:** Timely execution of the under-construction project within the estimated time and cost, leading to a sustained improvement in the financial profile, could be positive for the ratings.

**Negative:** Any deterioration in the operating performance, any accumulation in receivables, thereby impacting the liquidity, and higher-than-expected debt-funded capex, leading to the net leverage being higher than Ind-Ra's expectations, could be negative for the ratings.

## COMPANY PROFILE

JSWHEL operates two projects: i) KWHEP, which has a PPA via PTC India Limited with four discoms (Haryana (376MW), Punjab (200MW), UP (200MW) and Rajasthan (120MW)), ii) BHPP has a tie-up under a multi-year tariff scheme with the Himachal Pradesh discom, including 12% free power to the state over the life of the project. KWHEP has to supply 12% free power (120MW) to the Himachal Pradesh government till September 2024 and 18% thereafter. Generation from KWHEP and BHPP stood at 4,053 million units (MUs) (FY20: 4,647MUs; FY19: 3,969MUs) and 1,253MUs (FY20: 1,353MUs; FY19: 1,276MUs), respectively, in 9MFY21 as compared to the normative design energy of 4,131MUs and 1,213MUs respectively. The plant availability factor for KWHEP and BHPP remained above the normative levels of 90% over FY19-9MFY21.

### FINANCIAL SUMMARY

Particulars	9MFY21	FY20	FY19
Operating revenue (INR billion)	10.99	12.64	12.44
EBITDAR (INR billion)	9.96	10.74	10.71
EBITDAR margin (%)	90.6	85.0	86.1
Gross interest coverage (x)	2.9	2.0	1.8
Source: JSWHEL, Ind-Ra			

## COMPLEXITY LEVEL OF INSTRUMENTS

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## Applicable Criteria

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[Corporate Rating Methodology](#)

[Short-Term Ratings Criteria for Non-Financial Corporates](#)

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## Analyst Names

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[Primary Analyst](#)

**Shreyas Vaidya**

Analyst

India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block. Bandra Kurla Complex Bandra (East), Mumbai 400051

+91 22 40001775

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[Secondary Analyst](#)

**Nitin Bansal**

Associate Director

0124 6687290

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Committee Chairperson

**Abhishek Bhattacharya**

Director and Head Large Corporates

+91 22 40001786

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Media Relation

**Ankur Dahiya**

Manager – Corporate Communication

+91 22 40356121 >

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