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India Ratings Assigns JSW Energy (Barmer) 'IND AA-'; Outlook Stable

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India Ratings and Research (Ind-Ra) has assigned JSW Energy (Barmer) Limited (JSWEBL) 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 (billion)	Rating/Outlook	Rating Action
Term loan			FY30	INR19.61	IND AA-/Stable	Assigned
Fund-based limit				INR2.97	IND AA-/Stable/IND A1+	Assigned
Non-fund-based limit	-	-	-	INR1.25	IND AA-/Stable/IND A1+	Assigned

Analytical Approach: Ind-Ra has taken a consolidated view of JSWEBL and its 100% parent JSW Energy Limited (JSWEL, 'IND AA-'/Stable) and the latter's subsidiaries while assigning the ratings, given the strong operational and strategic linkages. Ind-Ra has consolidated Barmer Lignite Mining Company Limited (BLMCL; 49% stake) as JSWEBL has given corporate guarantees to BLMCL and factored in the shortfall undertaking provided by JSWEL to South West Mining Limited (SWML; 'IND A'/Stable).

KEY RATING DRIVERS

Comfortable Consolidated Credit Profile; Strong Linkages: Ind-Ra considers the credit profile of the consolidated entity as comfortable supported by cost-plus regulated operations on around 82% of the total capacity, presence of a sound risk assessment framework, strategic shift to long-tenured committed cash flow model, healthy plant operating metrics and low offtake risks.

The group has a capex outlay of about INR135 billion for expanding into renewables, hydro and other group captive projects over the next four-to-five years, which is likely to be funded with an estimated debt of around INR100 billion. While Ind-Ra expects the funding requirements for hydro expansion to be met at JSW Hydro Energy Limited (‘IND AA-’/Stable) level, excess cash flows from JSWEBL could be used for partly funding JSWEL’s other capex requirements. JSWEL and JSWEBL share common management and board members.

Strong Predictable Cash Flows: The ratings factor in the cost-plus regulated two-part nature of operations of 1,080MW lignite-based plant with a return on equity of 15% under the framework outlined by Rajasthan State Electricity Regulatory Commission. The plant has 100% capacity tied up under the long-term power purchase agreement with Rajasthan state distribution companies of Jaipur, Jodhpur and Ajmer for up to FY43. The power plant uses lignite as fuel, which is completely tied up with captive lignite mine (BLMCL) with complete pass-through of fuel cost. Given the fuel and offtake tie-up, and regulatory framework, Ind-Ra expects an operating EBITDA of INR8.5 billion-9 billion annually over the medium term.

Sound Plant Operating Metrics: JSWEBL operated its plant at better-than-normative parameters over FY15-FY21, with plant availability above 80% normative level, station heat rate of less than 2,600kcal/kWh, auxiliary consumption of less than 11.5%, thereby ensuring full recovery of fixed cost. As per the recent tariff order, the fixed cost per unit for JSWEBL was INR1.7/kWh. At the current allowed variable tariff of INR2.5/kWh, JSWEBL’s power is comfortably placed in the merit order dispatch among the top 40% thermal power producers of the state, ensuring higher-than-national average thermal plant load factor (9MFY21: 75%, FY20: 61.9%). Ind-Ra expects the operating parameters to remain comfortable over the medium term, given the historical operating performance.

Strong Credit Metrics Despite Capital Cost Disallowance: The plant was constructed at a capital cost of INR70.5 billion, against which the regulator has allowed a capital cost of INR59.8 billion. Despite the disallowance, the credit metrics have been strong with Ind-Ra expected net leverage (net debt/operating EBITDA) to have been below 1.5x at FYE21 (FYE20: 1.9x, FYE19:2.6x) on account of steady EBITDA generation and debt repayments. The project cost incurred was financed in debt equity ratio of 75:25, of which the debt outstanding at 9MFYE21 was only INR15.1 billion (FYE20: INR20.6 billion, FYE19: INR24.5 billion), lower than the regulated debt of INR18.6 billion at FYE21 as per the tariff order dated 1 May 2019. The total debt also includes INR3.7 billion infused as subordinated debt in BLMCL (total subordinated debt extended to BLMCL- INR5.7 billion). The company is extending corporate guarantees to BLMCL’s long-term loans of about INR10.5 billion at 9MEFY21; including these, the net leverage was below 2.5x at FYE21, which is much lower than above 4.0x leverage of other regulated power plants. The company’s gross interest coverage (operating EBITDA/gross interest expense) has remained strong at 5.9x in 9MFYE21 (FY20: 4.4x, FY19: 3.5x).

Liquidity Indicator - Adequate: JSWEBL's liquidity remains comfortable with unencumbered cash and liquid investments of INR4.3 billion at 9MFYE21 (FYE20: INR1.9 billion, FYE19: INR0.3 billion). Ind-Ra expects JSWEBL to have generated free cash flow of over INR6 billion for FYE21 (FYE20: INR5.5 billion, FY19: INR5 billion), driven by operating EBITDA generation of around INR9 billion (FY20: INR9.8 billion, FY19: INR9.3 billion), interest outflow of around INR1.7 billion (INR2.2 billion, INR2.7 billion), negligible capex (INR0.1 billion, INR0.16 billion) and balance cash being used for working capital. While the company has annual debt repayment of INR3.5 billion-3.7 billion, Ind-Ra expects the company to have prepaid additional term loans with the excess cash flows. Ind-Ra further estimates the average debt service coverage ratio to remain strong above 1.5x over the medium term.

JSWEBL's average use of the fund-based limit was below 10% over the 12 months ended May 2021 on account of sound cash flow generation. Ind-Ra believes lower-than-regulated debt position of JSWEBL allows scope for additional leveraging. Ind-Ra estimates JSWEBL could comfortably support a total debt of around INR35 billion, if require, while maintaining a project life cycle ratio of 1.5x till FY35.

Variable Cost Allowed on Ad-hoc Basis: The lignite transfer price for BLMCL is yet to be finalised by Rajasthan Electricity Regulatory Commission. As per the tariff order of FY19, BLMCL is allowed 85% recovery on its assessed transfer price, resulting in a variable cost of INR2.5/kwh for JSWEBL. The fixation of the final transfer price has been pending since the start of plant operations, on various regulatory grounds. Any increase in the transfer price could lead to a higher variable cost per unit, resulting in lower placement in merit order despatch and lower plant load factor; however, it will not have any impact on EBITDA generation as the variable cost is completely pass-through for JSWEBL.

Receivable Risks, Although Manageable: JSWEBL's receivables increased to INR6 billion in FY19 and further to INR9.4 billion in FY20 (FY17-FY18: below INR4 billion). However, the receivables declined marginally in December 2020 to INR8.4 billion. Ind-Ra expects the company's receivables to have largely remained stable in FY21 on account of various liquidity schemes announced by the government for distribution companies under the Aatmanirbhar Bharat scheme. Furthermore, JSWEBL has a payment security mechanism in the form of a letter of credit, favourable positioning in the merit order despatch schedule and presence of state government guarantees. The company also receives late payment surcharge, against delayed payments.

RATING SENSITIVITIES

Positive: The net leverage sustaining below 2.0x or an improvement in the consolidated credit profile will lead to a positive rating action.

Negative: Deterioration in plant operating metrics, leading to lower-than-normative EBITDA generation on a sustained basis or a higher-than-expected debt taken to support the group entities, leading to a higher-than-expected net leverage or deterioration in the consolidated credit profile will lead to a negative rating action.

COMPANY PROFILE

JSWEBL is a lignite-based thermal power plant in Barmer, Rajasthan operated by the JSWEL. The coal for the plant is sourced from Kapurdi and Jalipa mines operated by BLMCL.

FINANCIAL SUMMARY

Particulars	**9MFY21**	**FY20**	**FY19**
Operating revenue (INR billion)	20.4	26.0	25.6
Operating EBITDA (INR billion)	7.1	9.8	9.3
Operating EBITDA margin (%)	34.9	37.8	36.2
Gross interest coverage(x)	5.9	4.4	3.5
Net leverage (x)	-	1.9	2.6
Source: Ind-Ra, JSWEBL			

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Term loan	Low
Fund-based limit	Low
Non-fund-based limit	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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Applicable Criteria

Corporate Rating Methodology
Parent and Subsidiary Rating Linkage
Short-Term Ratings Criteria for Non-Financial Corporates

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