

## Barmer under-recoveries impacted performance

July 21, 2011

Reco	Previous Reco
Reduce	Reduce
CMP	Target Price
Rs71	Rs74
EPS change FY12E/13E (%)	-13/-8
Target Price change (%)	-5.0
Nifty	5,542
Sensex	18,436

### Price Performance

(%)	1M	3M	6M	12M
Absolute	7	(8)	(20)	(43)
Rel. to Nifty	1	(3)	(17)	(44)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Power
Bloomberg	JSW@IN
Equity Capital (Rs mn)	16401
Face Value(Rs)	10
No of shares o/s (mn)	1640
52 Week H/L	136/64
Market Cap (Rs bn/USD mn)	116/2,605
Daily Avg Volume (No of sh)	1300815
Daily Avg Turnover (US\$m)	2.1

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	76.7	76.7	76.7
FII/NRI	10.5	10.7	10.9
Institutions	5.8	5.9	6.1
Private Corp	1.6	1.7	1.9
Public	5.3	4.9	4.5

Source: Capitaline

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- Q112 PAT of Rs1.4bn is below est. mainly due to underrecoveries at Barmer (consolidated and standalone PAT difference is -Rs538mn) and lower PLF in other plants
- Avg realizations stood at Rs4.7/unit, in line with management guidance but the PLFs were lower - due to backing down instructions by discoms and maintenance shutdown
- Ratnagiri 4<sup>th</sup> unit to be synchronized soon. Barmer 3<sup>rd</sup>/4<sup>th</sup> unit synchronized but RERC tariff order is still pending leading to only 24 days of operations in Q1 - causing under-recoveries
- Cut FY12E/FY13E earnings by 13%/8% on lower PLF. Maintain Reduce; risky business model - open from both sides (fuel and off-take). Cut target price to Rs74/share

### Barmer underrecoveries increase impacted overall performance

Highlights of the qtr – (1) Barmer 2-135MW was only operational for 24 days in the qtr, pending provisional tariff order by RERC, (2) PLFs of other plants were low due to backing down instruction by discoms and maintenance shutdown. These two things impacted the qtrly performance with PAT decline at 54%. The underrecoveries at Barmer can be calculated by subtracting consolidated profits from standalone profits (Rs538mn). This is because Except Barmer and the transmission project, currently all other projects are under the parent company.

JSW Energy reported revenues of Rs11.5bn up 23% yoy and in line with our expectations. Gross Generation volumes grew by 47% but net generation grew by only 33% - due to higher auxiliary consumption (could be due to maintenance work and synchronization process. Average realizations stood at Rs4.7/unit, in line with management guidance after Q4FY11. Realizations were higher due to capacities locked up already. Higher fuel cost of Rs2.9/unit (up 25% yoy) led to EBITDA margin decline of 2510bps yoy to 23.2%. PAT declined by 54% yoy to Rs1.4bn (our est - Rs1.7bn) led by higher depreciation and interest cost (on account of commissioning of 1035MW capacities which includes 3x300 MW units at Ratnagiri in Maharashtra and 1x135 mw unit at Barmer in Rajasthan during past one year.

### Downside risk to our FY12E merchant realizations remains

The management in the Q4FY11 analyst meet had guided for Rs5/unit merchant realizations in Q1FY12 and then lower from Q2FY12E onwards. In our numbers we have taken average realizations of Rs4.5/unit, which, we believe, has significant downside risk. We also believe that even the presence in southern regions won't help post elections.

### Financial Snapshot

YE-	Rs Mn									
	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	23,551	12,136	51.5	7,457	4.5	-10.2	23.7	15.6	14.4	2.4
FY11P	41,782	14,499	34.7	8,407	5.1	12.7	16.1	13.9	15.3	2.1
FY12E	61,072	26,768	43.8	11,050	6.7	31.5	17.7	10.5	10.4	1.7
FY13E	67,976	28,851	42.4	9,335	5.7	-15.6	12.7	12.5	12.2	1.5

**Ratnagiri unit 3 commissioned, Barmer unit 3 and 4 synchronized**

Unit 3 (300MW) of Ratnagiri power plant has been commissioned and COD declared on 9<sup>th</sup> May 2011. Unit 4 (300MW) is expected to commission in July-August 2011. Unit 3&4 (135MW x 2) of Barmer has already been synchronized in Q1FY12 – with COD expected in Q2FY12. Barmer, complete project (rest 4 units - 135\*4) is likely to commission by end FY12E. Barmer Lignite mines are ready to start production but the company is awaiting provisional tariff order from RERC (the company expects the approval shortly but there has already been delay beyond expectations).

**Fuel - plans to import 4mn MT Indonesian coal in FY12E**

Overall coal requirement in FY12E is likely to be about 6mn MT (excluding lignite requirement for Barmer (4mn MT). JSW energy plans to import about 4mn MT Indonesian coal in FY12E. In the contract with Sungai Belati (1.6mn MT at FOB price of 35\$), the force majeure clause has been evoked and in turn JSW has evoked force majeure clause in its contract with MSEDCL (which is under hearing by MERC). As of now, there are no other contracts signed for Indonesian coal supply. In Q4FY11 analyst meet company had guided for coal prices of \$62 - \$110/MT for Ratnagiri and on the upper band for Vijaynagar.

In acquired South African coal mine (SACMH), JSW energy has upped its stake by 4.42% taking the overall stake to 34.79%. JSW energy currently control (directly and indirectly) 61.71% now. From SACMH, it plans to produce about 1mn MT in FY12E and import into India. As of now the current production (Q1FY12 - 0.10mn MT, average realizations USD 118/MT) is being disposed of locally and is being used as hedge.

**Even after the underperformance, there is room for negative surprises; Maintain Reduce**

We believe even after -44% underperformance relative to Nifty, there is a room for negative surprises from fuel (even Sungai Belati contract), power realizations (merchant prices, MSEDCL contract and long term contract prices). Reduce our FY12E/FY13E earnings by -13%/8% on lower PLF. At CMP of Rs71/share, the stock is trading at 1.7x/1.5x FY12E/FY13E book and implies long term merchant rate of Rs3.6/unit. We maintain our Reduce rating on JSW energy and cut price target to Rs74/share (earlier Rs78/Share).

## Quarterly Results

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	FY10	FY11	YoY (%)
<b>Revenue</b>	<b>9,278</b>	<b>7,724</b>	<b>10,611</b>	<b>14,169</b>	<b>11,454</b>	<b>23.5</b>	<b>-19.2</b>	<b>23,550</b>	<b>41,782</b>	<b>77.4</b>
<b>Expenditure</b>	<b>-4,801</b>	<b>-5,213</b>	<b>-7,227</b>	<b>-10,042</b>	<b>-8,792</b>	<b>83.1</b>	<b>-12.4</b>	<b>-11,416</b>	<b>-27,283</b>	<b>139.0</b>
<i>as % of sales</i>	<i>-51.7%</i>	<i>-67.5%</i>	<i>-68.1%</i>	<i>-70.9%</i>	<i>-76.8%</i>			<i>-48.5%</i>	<i>-65.3%</i>	
Consumption of RM	0	0	0	0	0				0	
<i>as % of sales</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>			<i>0.0%</i>	<i>0.0%</i>	
Power and Fuel	-4,283	-4,698	-6,518	-9,314	-7,077	<b>116.3</b>	<b>9.7</b>	-10,030	-24,813	<b>113.5</b>
<i>as % of sales</i>	<i>-46.2%</i>	<i>-60.8%</i>	<i>-61.4%</i>	<i>-65.7%</i>	<i>-61.8%</i>			<i>-42.6%</i>	<i>-59.4%</i>	
Other Mfg Expenses	0	0	0	0	0			0	0	
<i>as % of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>			<i>0</i>	<i>0</i>	
Employee Cost	-112	-137	-96	-121	-202	79.7	66.5	-311	-467	50.0
<i>as % of sales</i>	<i>-1.2%</i>	<i>-1.8%</i>	<i>-0.9%</i>	<i>-0.9%</i>	<i>-1.8%</i>			<i>-1.3%</i>	<i>-1.1%</i>	
Other expenditure	-405	-378	-614	-606	-1513	273.2	149.5	-1,075	-2,003	86.4
<i>as % of sales</i>	<i>-4.4%</i>	<i>-4.9%</i>	<i>-5.8%</i>	<i>-4.3%</i>	<i>-13.2%</i>			<i>-4.6%</i>	<i>-4.8%</i>	
<b>EBITDA</b>	<b>4,477</b>	<b>2,511</b>	<b>3,384</b>	<b>4,127</b>	<b>2,662</b>	<b>-40.5</b>	<b>-35.5</b>	<b>12,134</b>	<b>14,499</b>	<b>19.5</b>
Depreciation	-467	-551	-745	-905	-1048	124.6	15.8	-1,361	-2,668	96.0
<b>EBIT</b>	<b>4,010</b>	<b>1,959</b>	<b>2,639</b>	<b>3,222</b>	<b>1,614</b>	<b>-59.8</b>	<b>-49.9</b>	<b>10,773</b>	<b>11,831</b>	<b>9.8</b>
Other Income	351	1229	490	444	1491	324.4	236.0	743	2,514	238.3
Interest	-737	-942	-1417	-1229	-1338	42.1	8.8	-2,837	-4,325	52.5
<b>PBT</b>	<b>3,625</b>	<b>2,246</b>	<b>1,712</b>	<b>2,437</b>	<b>1,767</b>	<b>-51.3</b>	<b>-27.5</b>	<b>8,679</b>	<b>10,020</b>	<b>15.4</b>
Total Tax	-642	-408	-149	-414	-441	-31.3	6.5	-1,224	-1,613	31.8
<b>Adjusted PAT</b>	<b>2983</b>	<b>1838</b>	<b>1563</b>	<b>2023</b>	<b>1326</b>	<b>-55.6</b>	<b>-34.4</b>	<b>7455</b>	<b>8407</b>	<b>12.8</b>
Extra ordinary items	0	0	0	0	0			0	0	
<b>Reported PAT</b>	<b>2983</b>	<b>1838</b>	<b>1563</b>	<b>2023</b>	<b>1326</b>	<b>-55.6</b>	<b>-34.4</b>	<b>7455</b>	<b>8407</b>	<b>12.8</b>
(Profit)/loss from JV's/Ass/MI	3	8	-35	25	38	1087.5	52.6		1	
<b>PAT after MI</b>	<b>2987</b>	<b>1845</b>	<b>1528</b>	<b>2048</b>	<b>1364</b>	<b>-54.3</b>	<b>-33.4</b>	<b>7455</b>	<b>8408</b>	<b>12.8</b>
<b>Reported EPS</b>	<b>1.8</b>	<b>1.1</b>	<b>0.9</b>	<b>1.2</b>	<b>0.8</b>	<b>-54.3</b>	<b>-33.4</b>	<b>4.5</b>	<b>5.1</b>	<b>12.8</b>

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	48.3	32.5	31.9	29.1	23.2	-2502	-589	51.5	34.7	-1682
EBIT	43.2	25.4	24.9	22.7	14.1	-2914	-865	45.7	28.3	-1743
EBT	39.1	29.1	16.1	17.2	15.4	-2365	-177	36.9	24.0	-1287
PAT	32.2	23.9	14.4	14.5	11.9	-2028	-254	31.7	20.1	-1153
Effective Tax rate	17.7	18.2	8.7	17.0	25.0	726	797	14.1	16.1	200

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
<b>Net Sales</b>	<b>23,551</b>	<b>41,782</b>	<b>61,072</b>	<b>67,976</b>
Growth (%)	28.3	77.4	46.2	11.3
<b>Expenditure</b>	<b>11,415</b>	<b>27,283</b>	<b>34,304</b>	<b>39,125</b>
Raw Materials	9,828	24,813	30,258	33,852
Construction Exp	1,587	2,470	4,046	5,273
Employee Cost	0	0	0	0
Other Exp	0	0	0	0
<b>EBITDA</b>	<b>12,136</b>	<b>14,499</b>	<b>26,768</b>	<b>28,851</b>
Growth (%)	128.2	19.5	84.6	7.8
<b>EBITDA margin (%)</b>	<b>51.5</b>	<b>34.7</b>	<b>43.8</b>	<b>42.4</b>
Depreciation	1,361	2,668	5,632	7,249
<b>EBIT</b>	<b>10,775</b>	<b>11,831</b>	<b>21,136</b>	<b>21,602</b>
<b>EBIT margin (%)</b>	<b>45.8</b>	<b>28.3</b>	<b>34.6</b>	<b>31.8</b>
Other Income	742	2,514	506	317
Interest expenses	2,837	4,325	7,742	10,195
<b>PBT</b>	<b>8,680</b>	<b>10,019</b>	<b>13,901</b>	<b>11,724</b>
Tax	1,223	1,613	2,851	2,389
Effective tax rate (%)	14.1	16.1	20.5	20.4
<b>Adjusted PAT</b>	<b>7,457</b>	<b>8,407</b>	<b>11,050</b>	<b>9,335</b>
(Profit)/loss from JV's/Ass/MI	169.3	12.7	31.5	-15.6
<b>Adjusted PAT after MI</b>	<b>31.7</b>	<b>20.1</b>	<b>18.1</b>	<b>13.7</b>
Growth (%)	0	0	0	0
<b>Net Margin (%)</b>	<b>7,457</b>	<b>8,407</b>	<b>11,050</b>	<b>9,335</b>
E/O items	0	-1	7	-2
<b>Reported PAT</b>	<b>7,457</b>	<b>8,406</b>	<b>11,057</b>	<b>9,333</b>
Growth (%)	169.3	12.7	31.5	-15.6

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	7,938	7,505	13,394	11,407
Depreciation	1,361	2,668	5,632	7,249
Interest Provided	2,837	4,325	7,742	10,195
Other Non-Cash items	-7,847	390	0	0
Chg in working cap	-6,731	-968	-8,422	-1,268
Tax paid	221	-3,095	-2,851	-2,389
<b>Operating Cash flow</b>	<b>-2,221</b>	<b>10,826</b>	<b>15,495</b>	<b>25,194</b>
Capital expenditure	-31,919	-54,879	-66,572	-89,388
<b>Free Cash Flow</b>	<b>-34,140</b>	<b>-44,053</b>	<b>-51,078</b>	<b>-64,194</b>
Other income	742	2,514	506	317
Investments	0	0	0	0
<b>Investing Cash flow</b>	<b>-31,177</b>	<b>-52,365</b>	<b>-66,066</b>	<b>-89,071</b>
Equity Capital Raised	35,177	12	0	0
Loans Taken / (Repaid)	19,430	33,482	58,461	66,736
Interest Paid	-2,837	-4,325	-7,742	-10,195
Dividend paid (incl tax)	-1,434	-1,640	0	0
Income from investments	0	148	1,262	523
<b>Financing Cash flow</b>	<b>50,335</b>	<b>27,677</b>	<b>51,981</b>	<b>57,064</b>
<b>Net chg in cash</b>	<b>16,937</b>	<b>-13,862</b>	<b>1,409</b>	<b>-6,812</b>
Opening cash position	3,456	20,393	6,530	7,939
<b>Closing cash position</b>	<b>20,393</b>	<b>6,530</b>	<b>7,939</b>	<b>1,127</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	16,401	16,401	16,401	16,401
Reserves & surplus	31,554	40,018	52,330	62,188
<b>Net worth</b>	<b>47,954</b>	<b>56,419</b>	<b>68,730</b>	<b>78,588</b>
Secured Loans	78,701	112,183	170,644	237,380
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>	<b>78,701</b>	<b>112,183</b>	<b>170,644</b>	<b>237,380</b>
Net deferred tax liability	1,161	0	0	0
<b>Total Liabilities</b>	<b>127,817</b>	<b>168,602</b>	<b>239,374</b>	<b>315,968</b>
Gross Block	36,839	70,729	135,442	143,425
Less: Depreciation	-6,714	-9,361	-14,993	-22,242
<b>Net block</b>	<b>30,125</b>	<b>61,368</b>	<b>120,449</b>	<b>121,183</b>
Capital work in progress	86,026	106,994	108,853	190,258
<b>Investment</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Current Assets</b>	<b>30,673</b>	<b>20,495</b>	<b>30,763</b>	<b>25,508</b>
Inventories	3,714	5,566	6,220	6,655
Sundry debtors	2,714	5,708	13,913	15,035
Cash & bank balance	20,393	6,530	7,939	1,127
Loans & advances	3,852	0	0	0
Other current assets	0	2,691	2,691	2,691
<b>Current lia &amp; Prov</b>	<b>19,006</b>	<b>20,242</b>	<b>20,678</b>	<b>20,968</b>
Current liabilities	17,524	20,242	20,678	20,968
Provisions	1,482	0	0	0
<b>Net current assets</b>	<b>11,666</b>	<b>253</b>	<b>10,085</b>	<b>4,540</b>
Misc. exp	0	12	12	12
<b>Total Assets</b>	<b>127,817</b>	<b>168,603</b>	<b>239,375</b>	<b>315,969</b>

## Key ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	51.5	34.7	43.8	42.4
Net Margin	31.7	20.1	18.1	13.7
ROCE	10.6	8.0	10.4	7.8
ROE	23.7	16.1	17.7	12.7
RoIC	10.3	7.4	8.5	6.3
<b>Per Share Data (Rs)</b>				
EPS	4.5	5.1	6.7	5.7
CEPS	5.4	6.8	10.2	10.1
BVPS	29.2	34.4	41.9	47.9
DPS	0.7	1.0	0.0	0.0
<b>Valuations (x)</b>				
PER	15.6	13.9	10.5	12.5
P/CEPS	13.2	10.5	7.0	7.0
P/BV	2.4	2.1	1.7	1.5
EV / Sales	7.4	5.3	4.6	5.2
EV / EBITDA	14.4	15.3	10.4	12.2
Dividend Yield (%)	1.1	1.4	0.0	0.0
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	1.5	1.9	2.4	3.0
Net Debt/EBIDTA	6.0	7.3	6.1	8.2
Working Cap Cycle (days)	-76	-38	12	19

**Recommendation History: JSW Energy – JSW IN**

Date	Reports	Reco	CMP	Target
29/04/2011	<a href="#">JSW Energy Q4FY11 Result Update</a>	Reduce	75	78
25/01/2011	<a href="#">Power Sector Report; Too many ends to tie</a>			

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
21/07/2011	<a href="#">Bharat Bijlee Q1FY12 Result Update</a>	Accumulate	850	884
20/07/2011	<a href="#">Sintex Industries Q1FY12 Result Update</a>	Buy	185	225
08/06/2011	<a href="#">Emco Q4FY11 Result Update</a>	Reduce	54	60
02/06/2011	<a href="#">Lanco Infratech Q4FY11 Result Update</a>	Buy	34	45

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