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DEMOCRATIZING WEALTH CREATION

VALUE PICK

CHASING VALUE, NOT PRICES

December 2016

Company Name	:	**JSW ENERGY**
BSE Code	:	**533148**
Time Duration	:	**1 year**
CMP	:	**₹61.80 (as on 15 December, 2016)**
Target Price	:	**₹80**

Our Value Pick for the month of December 2016 is JSW Energy. JSW Energy is an energy company engaged in power generation, power transmission, mining, power trading and equipment manufacturing. In the last seven years JSW Energy increased its operational power generation capacity to 4531 MW from 260 MW through inorganic expansion plans; of which 70 per cent would be thermal and the rest hydel.

JSW Energy grew at five-year CAGR of 13 per cent to notch up business of Rs 9,969 crore in FY16. This growth was aided by operational efficiency, softening coal prices, improvement in (Plant Load Factor) PLF (~85 per cent) with medium to long term Power Purchase Agreements (PPAs). JSWE is going through capex plans to expand its capacity and, owing to this, we expect 13 per cent improvement in PAT in FY17E. We see an upside of around 30 per cent in the scrip from the current level.

Capacity expansion to boost growth

The company is in the process of inorganic expansion. Towards this end, it added 1391 MW of Himachal-based two hydro power projects to its existing capacity of 3140 MW in FY16. This increased the company's capacity by 44 per cent and expanded its geographical reach, coupled with the portfolio of long term PPAs in its revenue.

The company is focusing on acquisition of BINA (0.5 GW plant) and Jindal Power (1 GW) which will be completed by FY17E/19E. Till that time, we can see increase in finance cost and depreciation on addition of assets which can subdue PAT growth in the short term only to reap long term benefits. The company's total capacity will increase to ~6000 MW after completion of this merger. This will enhance share of merchant capacity from ~33 per cent to ~44 per cent.

The company's current debt stood at Rs 13,738 crore, resulting in D/E ratio of 1.34x in Q2FY17 as against 1.35x in Q1FY17. The debt was raised by the company mainly for utilisation in capex activities. The long term PPA contracted capacities will generate EBITDA upto Rs 3,000 crore, which will be sufficient for servicing debt obligation by FY20E.

PPA with Swaziland

In October 16, JSWE signed MoU with Swaziland Electricity Company (SEC) to set up thermal power plant and undertake mining activities to meet energy need. This is the long term PPA granted by Kingdom of Swaziland to JSWE.

Power generation surges up

JSWE's power generation segment grew 23 per cent YoY to Rs 12372 crore in H1FY17 YoY mainly driven by hydro project (which is ~40 per cent of revenue from power generation). On Q2FY17 front, it reported 7 per cent growth to Rs 5956 crore YoY. The 78 per cent revenue comes from long term PPA and the balance is from short term PPA.

The company reported a major degrowth of 63% from Vijayanagar plant in Q2FY17. Oversupply, subdued merchant power rate and rising cost of imported coal impacted Vijayanagar sales. Due to this, we see reduced PLF of Vijayanagar plant to 51 per cent in H1FY17 as against 81 per cent YoY. Its average realisation also reduced to Rs 3.45 per unit (KWh) in H1FY17 as against Rs 4.04 per unit (KWh) YoY. Overall, JSWE has PLF of ~85 per cent which is considered healthy in the industry.

We believe oversupply will get corrected by FY19E by which time JSWE will be functional with added capacities which will be valuable once markets get stable.

Financial Performance

JSWE's consolidated net sales for the quarter ended September 2016 wast Rs 2,008.2 crore, a 18.5 per cent YoY decline, despite net generation increasing by 11 per cent YoY to 6,276 MU (primarily attributable to the hydro plant acquired during last September.) Its EBIDT (excl. other income) also dropped 2.6 per cent YoY to Rs 962.7 crore with corresponding quarterly margins contracting 751 bps to 47 per cent. The PAT for the period showed a drastic fall, dropping 60.5 per cent YoY to Rs 214.9 crore due to rise in interest and depreciation cost owing to addition of assets.

The net sales for the recently concluded six months saw a 2.1 per cent YoY decline to Rs 4,497.1 crore. The EBIDT (excl. other income) was Rs 2080 crore, a YoY improvement of 15.4 per cent led by a PBIDT margin expansion of 700 bps to 46.3 per cent due to reduction in fuel cost. Its consolidated net profit for the period, however, saw a 30.7 per cent YoY decline to Rs 583.90 crore largely due to the negative impact of a 28.8 per cent increase in depreciation expenses.

Valuation and Outlook

The company will reap benefits of UDAY scheme and rising demand from growing public infrastructure. The company with FY17E P/E of 6.8x and EV/EBITDA of 6.2x looks undervalued with strong balance sheet. We recommend investors to **BUY** the scrip in the range of Rs 57-64 (CMP- Rs 61) with a target of Rs 80.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Net Sales	9968.94	9380.16	8705.42	8934.30	6118.82
Total Income	10178.98	9610.27	8907.63	9147.73	6265.44
Total Expenditure	5824.35	5756.75	5454.02	6141.12	4671.05
PBIDT	4354.63	3853.52	3453.61	3006.61	1594.39
PAT	1446.19	1377.08	776.43	912.40	170.63
Dividend %	20.00	20.00	20.00	20.00	5.00
Adj. EPS(Rs)	8.51	8.23	4.60	5.51	1.04

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201609	201606	Q on Q Var%	201509	Y on Y Var%
Net Sales	2008.24	2411.24	-16.71	2463.12	-18.47
Total Expenditure	1084.31	1332.77	-18.64	1511.79	-28.28
PBIDT (Excl OI)	962.71	1117.26	-13.83	987.87	-2.55
PAT	214.94	365.10	-41.13	543.58	-60.46
PBIDTM% (Excl OI)	47.03	45.60	3.14	39.52	19.00
PBIDTM%	49.55	47.30	4.76	49.57	-0.04
PATM%	10.50	14.90	-29.53	21.75	-51.72
Adj. EPS(Rs)	1.34	2.23	-39.91	3.28	-59.15