

BSE SENSEX 80,110 S&P CNX 24,222

**CMP: INR675**

**TP: INR810 (+20%)**

**Buy**

Motilal Oswal values your support in the EXTEL POLL 2024 for India Research, Sales, Corporate Access and Trading team. We request your ballot.



### Stock Info

Bloomberg	JSW IN
Equity Shares (m)	1748
M.Cap.(INRb)/(USDb)	1179.8 / 14
52-Week Range (INR)	805 / 398
1, 6, 12 Rel. Per (%)	1/7/38
12M Avg Val (INR M)	2343
Free float (%)	30.7

### Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	114.9	146.0	168.0
EBITDA	53.8	72.0	88.0
Adj. PAT	17.2	27.6	33.7
EPS (INR)	10.5	15.8	19.3
EPS Gr. (%)	24.2	50.4	22.1
BV/Sh.(INR)	127.0	132.5	148.8

### Ratios

Net D:E	1.2	1.5	1.6
RoE (%)	8.7	12.5	13.7
RoCE (%)	7.7	9.3	9.6
Payout (%)	19.0	17.1	15.6

### Valuations

P/E (x)	50.4	42.2	34.6
P/BV (x)	4.2	5.0	4.5
EV/EBITDA (x)	21.0	20.9	17.9
Div. Yield (%)	0.4	0.4	0.5
FCF Yield (%)	-4.2	-7.2	-5.7

## Strong pipeline and opportunistic acquisitions drive growth

### Update our model for recent PPAs; slightly defer capacity build-up

We met with the management of JSW Energy (JSWE) recently. Following the meeting, we update our model to account for projects secured recently and update project estimates for tariff wherever Power Purchase Agreements (PPAs) have been finalized. We also slightly defer the capacity build-up (10GW by end-FY25 vs Dec'24 earlier), in line with the guidance provided recently. Lastly, we adjust the profitability of hydro-assets lower to account for the tariff true-up impact, which was there in 2QFY25. Consequently, our EBITDA estimates have been reduced 9%/7% for FY25/26, respectively, while the adjusted PAT estimates have been reduced 11%/10%.

### Additional INR60/share upside from KSK Mahanadi

JSWE recently announced its emergence as the top bidder for KSK Mahanadi, a thermal asset (1.8GW operational + 1.8GW scope for brownfield expansion) for a consideration of INR159.9b, implying estimated EV/EBITDA of ~6x, which we think is attractive. On the per MW basis, this acquisition comes at INR89m vs the recent ordering by NTPC (INR120m/MW). The final approval for the acquisition is expected by end-FY25/1QFY26 and as such, earnings from this acquisition have not been built into our estimates. Our current TP is INR810. Should we include the earnings and consequent debt from this acquisition, it would further enhance our TP by INR60/share.

### Strong pipeline, established execution, and resilient balance sheet

We continue to reiterate BUY on JSWE with an SoTP-based TP of INR810/share. We remain optimistic, based on 1) the strong visibility of the capacity rising to ~14 GW by end-FY27 from 7.7GW currently, 2) the ability to undertake and turnaround opportunistic acquisitions (Ind-Barath, Mytrah, and now KSK Mahanadi), and 3) the robust balance sheet that allows for sustainable capital investment.

### Valuation and view

We value JSWE's core business at 15x FY27 EBITDA, reflecting its strong operational performance and market position. The stake in JSW Steel is valued at a 25% discount to the current market price. JSWE is currently trading at FY27 EV/EBITDA of 14.2x. The total equity value of JSWE was determined by aggregating the values from these different components, leading to a TP of INR810/share. Additionally, note that we see an option value of INR60/share from KSK Mahanadi, which should materialize once the deal is approved.

Abhishek Nigam – Research Analyst (Abhishek.Nigam@MotilalOswal.com)

Preksha Daga – Research Analyst (Preksha.Daga@MotilalOswal.com)

**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

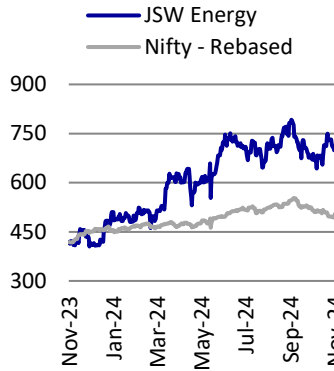
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**Shareholding pattern (%)**

As On	Sep-24	Jun-24	Sep-23
Promoter	69.3	69.3	73.4
DII	9.8	9.2	9.9
FII	15.1	15.6	8.6
Others	5.8	5.9	8.1

FII Includes depository receipts

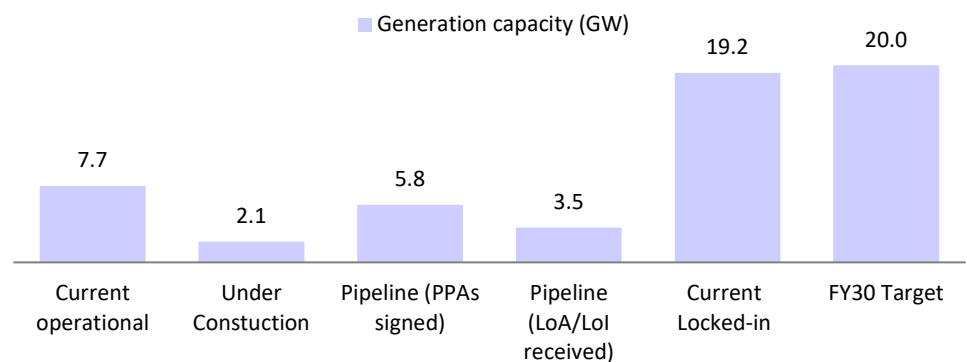
**Stock performance (one-year)**



**Strong RE pipeline backed by PPAs; 20GW ambition now within reach**

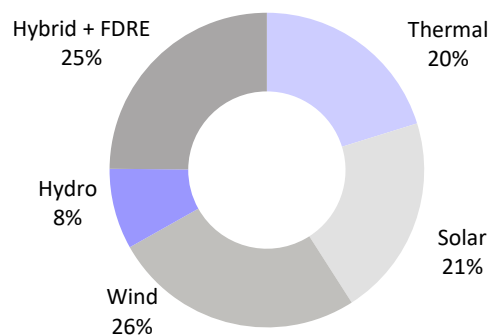
- JSWE has outlined a strategic vision to achieve a total generation capacity of 20GW and energy storage capacity of 40GWh by 2030. In alignment with its sustainability goals, the company is targeting a 50% reduction in its carbon footprint by 2030 and aims to achieve carbon neutrality by 2050.
- Currently, JSWE’s total locked-in generation capacity of 19.2GW comprises 7.7GW operational; 2.1 GW under construction across wind, thermal, and hydro (to be commissioned by FY25-end); and the RE pipeline of 9.3 GW (with long-term PPAs already signed for 5.8GW and LoA/LoI received for 3.5GW).
- Additionally, the company has a locked-in energy storage capacity of 16.2 GWh, which includes battery energy storage systems and hydro-pumped storage projects.

**Exhibit 1: Current locked-in capacity**



Source: Company, MOFSL

**Exhibit 2: 19.2 GW locked-in capacity break-up**



Source: Company, MOFSL

**INR60/sh option value from the strategic KSK Mahanadi acquisition**

- JSWE has emerged as the top bidder for KSK Mahanadi Power Company Limited with an offer of INR159.85b.
- Located in Chhattisgarh, KSK Mahanadi Power Company operates a 3.6GW coal-fired plant with an operational capacity of 1.8GW, while there is scope for another 1.8 GW brownfield capacity expansion.
- The project, which faced financial distress with a debt of INR293.3b, was admitted into the Insolvency and Bankruptcy Code (IBC) process in 2019. Other bidders, including Jindal Power, Vedanta, and NTPC Ltd, remained active until the ninth round.

- Assuming an EBITDA of INR2/unit and 80% PLF, we estimate the asset could generate an EBITDA of ~INR25b, which implies that EV/EBITDA will be ~6x for this deal vs NTPC trading at 10x EV/EBITDA.
- Our earnings estimates do not include the contribution from this acquisition. However, if we account for KSK earnings and consequent debt, our TP increases by INR60/share. We expect regulatory approval for the transaction by the end of FY25 or 1QFY26.

**Exhibit 3: KSK Mahanadi valuation estimation**

Particulars	Units	Amount
Capacity	MW	1,800
Generation	MU	12,614
EBITDA at INR2/unit	INRm	25,229
EV as per Transaction	INRm	1,59,850
<b>EV/EBITDA</b>	<b>(x)</b>	<b>6.34</b>
KSK Mahanadi EBITDA	INRm	25,229
Multiple - EV/EBITDA	(x)	9
Value	INRm	2,24,789
Net debt	INRm	1,20,000
Market Cap	INRm	1,04,789
<b>Per share impact</b>	<b>INR/share</b>	<b>60</b>

Source: Company, MOFSL

**Exhibit 4: Recent thermal assets bid details**

Top Bidder	Name	Location	Asset Type	Capacity (MW)	Final Bid Amount (INRb)	INRm/MW	Other bidders
JSWE	KSK Mahanadi Power	Chhattisgarh	Thermal	1800	159.9	89	❖ Adani Power, Jindal Power, NTPC, Vedanta
Adani Power	Lanco Amarkantak Power Ltd (LAPL)	Chhattisgarh	Thermal	600	41.0	68	❖ Jindal power, PFC-REC, Reliance Industries
Mahagenco and NTPC	Sinnar Thermal Power Plant	Maharashtra	Thermal	1350	38.0	28	❖ Adani Power, Vedanta Group, Jindal Power, Orissa Metaliks, Singapore-based VFSI Holdings
Punjab State Power Corporation Limited	Goindwal Sahib thermal power plant (TPP)	Punjab	Thermal	540	10.8	20	
Damodar Valley Corporation (DVC)	Hiranmaye Energy Limited	West Bengal	Thermal	300	15.0	50	❖ Jindal Power, CESC, Hindustan Power, Shyam Sel and Power, Orissa Metaliks, Rungta Mines

Source: Company, MOFSL

**Operational capacity to nearly double by end FY27**

- JSWE is poised for strong growth, with its operational capacity of 7.7GW set to expand to 10GW by FY25-end, ~11 GW by FY26, and ~14.4 GW by FY27.
- The potential addition of 1.8GW from KSK assets, upon deal completion, further amplifies its growth trajectory, taking the operational capacity to ~16GW by end FY27. Further, FY28 could witness further capacity build-up of ~2-3GW.
- We are building in for EBITDA to reach INR115b by FY27, with a potential for the KSK acquisition to boost it by INR25b and take it to INR140b. Our current EBITDA estimates imply an FY24-27 CAGR of 29%.

### Technology licensing agreement with SANY Renewable Energy

- JSWE recently announced its strategic move to venture into WTG blade manufacturing, given its objective of ensuring a reliable and assured supply of critical equipment for its projects.
- In Oct'24, JSWE announced that JSW Renewable Technologies Two Limited, a wholly-owned subsidiary of JSW Neo Energy Limited and a stepdown subsidiary of JSWE, entered into a technology licensing agreement with SANY Renewable Energy Co. Ltd. to manufacture wind turbine blades in India for captive usage by the company.
- This initiative is expected to result in significant cost savings besides ensuring strong quality control and timely supply of equipment. JSWE's current operational wind energy capacity stands at 2.2GW, with an additional 2.8GW of wind projects under construction or in the pipeline, reinforcing JSWE's commitment to expanding its renewable energy footprint.

### Slower-than-expected commissioning a key risk

- Key risks to our earnings estimates and TP stem from 1) the slower-than-expected commissioning of key projects, 2) weaker-than-expected operational performance for thermal/renewable assets, and 3) weaker-than-expected return profile for renewable projects.

### Valuation and view

- We value JSWE's core business at 15x FY27 EBITDA, reflecting its strong operational performance and market position. The stake in JSW Steel is valued at a 25% discount to the current market price. JSWE is currently trading at FY27 EV/EBITDA of 14.2x.
- The total equity value of JSWE was determined by aggregating the values from these different components, leading to a TP of INR810/share.
- Additionally, note that we see an option value of INR60/share from KSK Mahanadi, which should materialize once the deal is approved.

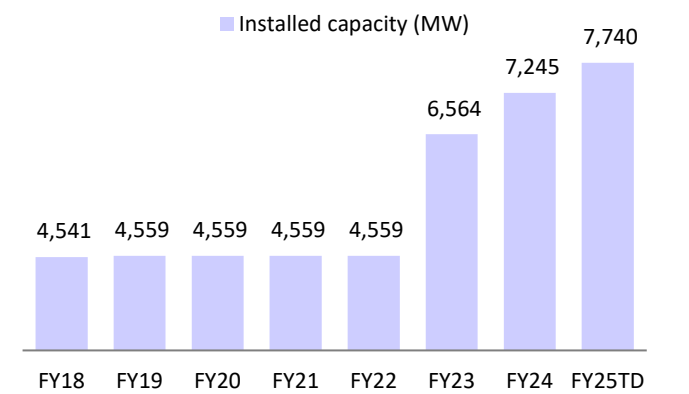
#### Exhibit 5: JSWE SoTP-based valuation

Particulars	Units	Amount
EBITDA - FY 27	INR m	1,15,539
Valuation multiple	(x)	15
EV	INR m	17,83,923
Less: Net Debt	INR m	4,21,602
<b>Market cap</b>	<b>INR m</b>	<b>13,62,321</b>
JSW Steel stake*	INR m	51,216
<b>Total Equity value</b>	<b>INR m</b>	<b>14,13,537</b>
<b>Target price</b>	<b>INR/Share</b>	<b>810</b>
CMP	INR/share	667
Upside/(Downside)		22%

\*At 25% discount

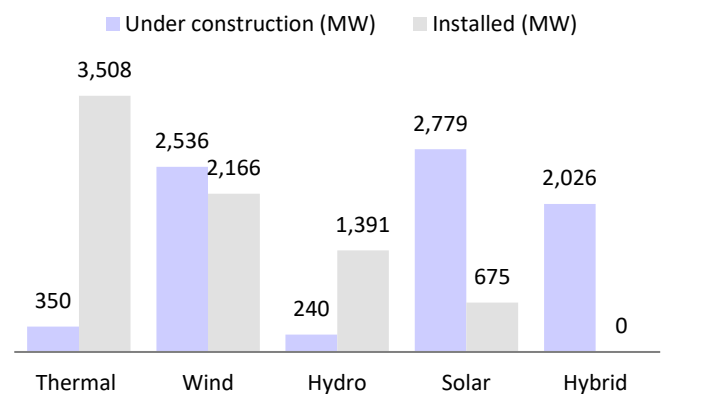
Source: MOFSL

**Exhibit 6: Installed capacity growth**



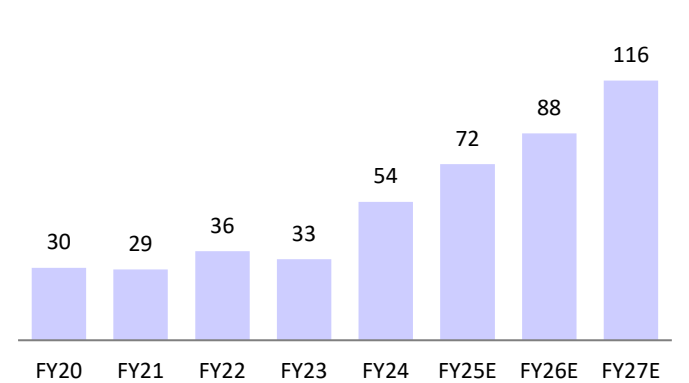
Source: Company, MOFSL

**Exhibit 7: Capacity breakdown by 2QFY25 end**



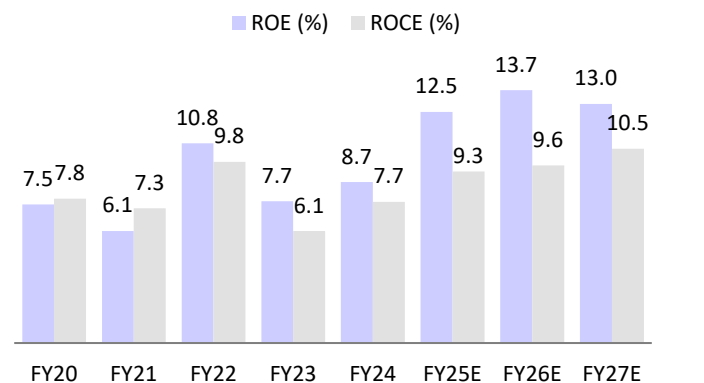
Source: Company, MOFSL

**Exhibit 8: Consol. EBITDA (INRb)**



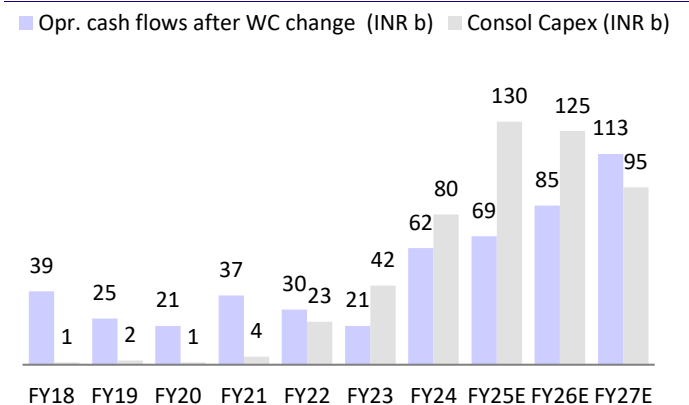
Source: Company, MOFSL

**Exhibit 9: Consol. ROE and ROCE**



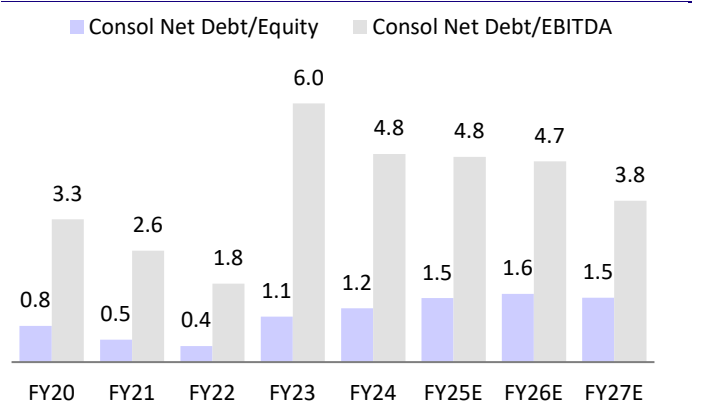
Source: Company, MOFSL

**Exhibit 10: Capex ramp-up driven by 20GW capacity target**



Source: Company, MOFSL

**Exhibit 11: Leverage trending up amid capacity expansion**



Source: Company, MOFSL

## Financials and valuations

Consolidated Income Statement					(INR m)
Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>1,03,318</b>	<b>1,14,859</b>	<b>1,46,017</b>	<b>1,67,956</b>	<b>2,01,476</b>
<i>Change (%)</i>	26.5	11.2	27.1	15.0	20.0
<b>EBITDA</b>	<b>32,818</b>	<b>53,818</b>	<b>72,044</b>	<b>88,031</b>	<b>1,15,539</b>
<i>% of Net Sales</i>	31.8	46.9	49.3	52.4	57.3
Depreciation	11,692	16,334	16,800	20,152	32,990
<b>EBIT</b>	<b>21,126</b>	<b>37,484</b>	<b>55,244</b>	<b>67,878</b>	<b>82,549</b>
Net Interest	8,443	20,534	25,557	30,057	43,298
Other income	5,352	4,554	7,855	7,855	7,855
<b>PBT before EO</b>	<b>18,036</b>	<b>21,504</b>	<b>37,541</b>	<b>45,676</b>	<b>47,106</b>
EO expense	-1,200	0	0	0	0
<b>PBT after EO</b>	<b>19,236</b>	<b>21,504</b>	<b>37,541</b>	<b>45,676</b>	<b>47,106</b>
Tax	4,627	4,423	9,385	11,419	10,834
<i>Rate (%)</i>	24.1	20.6	25.0	25.0	23.0
JV	193	165	255	255	255
Minority	24	19	850	850	850
<b>Reported PAT</b>	<b>14,778</b>	<b>17,227</b>	<b>27,561</b>	<b>33,662</b>	<b>35,677</b>
<b>Adjusted PAT</b>	<b>13,866</b>	<b>17,227</b>	<b>27,561</b>	<b>33,662</b>	<b>35,677</b>
<i>Change (%)</i>	-19.8	24.2	60.0	22.1	6.0

Consolidated Balance Sheet					(INR m)
Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	16,405	16,412	16,412	16,412	16,412
Reserves	1,69,883	1,91,905	2,14,783	2,43,270	2,73,772
<b>Net Worth</b>	<b>1,86,288</b>	<b>2,08,317</b>	<b>2,31,195</b>	<b>2,59,682</b>	<b>2,90,184</b>
Minority Interest	1,054	1,825	2,675	3,525	4,375
Total Loans	2,48,172	3,13,266	3,68,266	4,33,266	4,78,266
Deferred Tax Liability	10,784	13,390	16,018	19,215	21,570
<b>Capital Employed</b>	<b>4,46,298</b>	<b>5,36,798</b>	<b>6,18,154</b>	<b>7,15,688</b>	<b>7,94,395</b>
Gross Block	3,29,615	3,85,207	4,14,810	5,44,813	6,54,816
Less: Accum. Deprn.	85,809	1,02,143	1,18,943	1,39,095	1,72,085
<b>Net Fixed Assets</b>	<b>2,43,807</b>	<b>2,83,064</b>	<b>2,95,866</b>	<b>4,05,717</b>	<b>4,82,731</b>
Capital WIP	47,795	1,02,851	2,03,248	1,98,245	1,83,242
Goodwill	6,485	6,398	6,398	6,398	6,398
Investments	49,616	59,458	59,458	59,458	59,458
<b>Curr. Assets</b>	<b>1,39,714</b>	<b>1,30,920</b>	<b>1,03,642</b>	<b>1,01,334</b>	<b>1,25,382</b>
Inventories	9,871	8,307	9,601	10,123	9,936
Account Receivables	16,314	10,205	10,001	9,203	11,040
Cash and Bank Balance	50,850	52,957	24,587	22,555	44,954
Others	62,679	59,452	59,452	59,452	59,452
<b>Curr. Liability &amp; Prov.</b>	<b>41,119</b>	<b>45,893</b>	<b>50,458</b>	<b>55,464</b>	<b>62,816</b>
Account Payables	12,741	13,437	18,002	23,008	30,359
Provisions & Others	28,378	32,456	32,456	32,456	32,456
<b>Net Curr. Assets</b>	<b>98,595</b>	<b>85,028</b>	<b>53,183</b>	<b>45,870</b>	<b>62,567</b>
<b>Appl. of Funds</b>	<b>4,46,298</b>	<b>5,36,798</b>	<b>6,18,154</b>	<b>7,15,688</b>	<b>7,94,395</b>

## Financials and valuations

### Ratios

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Basic (INR)</b>					
<b>EPS</b>	<b>8.5</b>	<b>10.5</b>	<b>15.8</b>	<b>19.3</b>	<b>20.4</b>
Cash EPS	15.6	20.5	25.4	30.8	39.3
BV/Share	113.6	127.0	132.5	148.8	166.3
DPS	2.0	2.0	2.7	3.0	3.0
Payout (%)	23.7	19.0	17.1	15.6	14.7
Dividend yield (%)	0.8	0.4	0.4	0.5	0.5
<b>Valuation (x)</b>					
P/E	28.3	50.4	42.2	34.6	32.6
Cash P/E	15.3	25.9	26.2	21.6	16.9
P/BV	2.1	4.2	5.0	4.5	4.0
EV/EBITDA	18.0	21.0	20.9	17.9	13.8
Dividend Yield (%)	0.8	0.4	0.4	0.5	0.5
FCF (pre-interest) to EV (%)	-3.7	-1.6	-4.1	-2.5	1.1
<b>Return Ratios (%)</b>					
RoE	7.7	8.7	12.5	13.7	13.0
RoCE (post-tax)	6.1	7.7	9.3	9.6	10.5
RoIC (post-tax)	7.0	9.8	13.0	13.5	13.7
<b>Working Capital Ratios</b>					
Fixed Asset Turnover (x)	0.4	0.4	0.5	0.4	0.4
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.3
Debtor (Days)	58	32	25	20	20
Inventory (Days)	35	26	24	22	18
Working Capital Turnover (Days)					
<b>Leverage Ratio (x)</b>					
Net Debt/EBITDA	6.0	4.8	4.8	4.7	3.8
Debt/Equity	1.1	1.2	1.5	1.6	1.5

### Consolidated Cash Flow Statement

(INR m)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>EBITDA</b>	<b>32,818</b>	<b>53,818</b>	<b>72,044</b>	<b>88,031</b>	<b>1,15,539</b>
FX gain/loss	0	0	0	0	0
WC	-11,336	10,085	3,475	5,281	5,703
Others	2,833	2,290	0	0	0
Direct taxes (net)	-3,473	-3,857	-6,757	-8,222	-8,479
<b>CF from Op. Activity</b>	<b>20,843</b>	<b>62,336</b>	<b>68,761</b>	<b>85,090</b>	<b>1,12,762</b>
Capex	-42,363	-80,328	-1,30,000	-1,25,000	-95,000
<b>FCFF</b>	<b>-21,520</b>	<b>-17,991</b>	<b>-61,239</b>	<b>-39,910</b>	<b>17,762</b>
Interest income	2,342	1,894	0	0	0
Others	-30,074	-4,743	7,855	7,855	7,855
<b>CF from Inv. Activity</b>	<b>-70,095</b>	<b>-83,177</b>	<b>-1,22,145</b>	<b>-1,17,145</b>	<b>-87,145</b>
Share capital	24	0	0	0	0
Borrowings	87,278	-1,77,098	55,000	65,000	45,000
Finance cost	-10,758	-23,082	-25,557	-30,057	-43,298
Dividend	-3,288	-3,468	-4,428	-4,920	-4,920
Others	1,581	2,26,596	0	0	0
<b>CF from Fin. Activity</b>	<b>74,838</b>	<b>22,947</b>	<b>25,015</b>	<b>30,023</b>	<b>-3,218</b>
<b>(Inc)/Dec in Cash</b>	<b>25,586</b>	<b>2,106</b>	<b>-28,370</b>	<b>-2,032</b>	<b>22,400</b>
Opening balance	25,265	50,850	52,957	24,587	22,555
<b>Closing balance (as per B/S)</b>	<b>50,850</b>	<b>52,957</b>	<b>24,587</b>	<b>22,555</b>	<b>44,954</b>

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NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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#### Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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