

BSE SENSEX 78,699 S&P CNX 23,813

CMP: INR626

TP: INR810 (+29%)

Buy



Stock Info

Bloomberg	JSW IN
Equity Shares (m)	1748
M.Cap.(INRb)/(USDb)	1093.8 / 12.8
52-Week Range (INR)	805 / 404
1, 6, 12 Rel. Per (%)	-5/-14/42
12M Avg Val (INR M)	2332
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

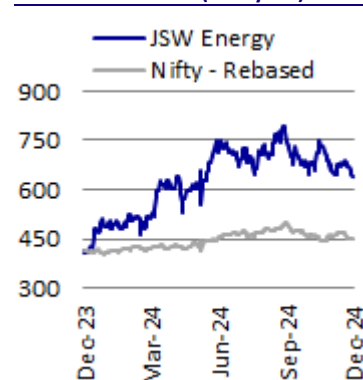
P/E (x)	60.0	39.9	32.7
P/BV (x)	5.0	4.8	4.2
EV/EBITDA (x)	24.0	20.0	17.2
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	-4.4	-7.6	-6.0

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)



O2 Power acquisition unlocks value

- JSW Energy (JSWE) announced a definitive agreement to acquire O2 Power Midco Holdings Pte. Limited, O2 Energy SG Pte. Limited, and their subsidiaries (O2 Power) for a total cash consideration of INR124.68b. We view this move positively, and following are the key implications according to us:
- **Up to INR57/share value unlocking upon deal completion:** With listed Renewable Energy (RE) generation companies currently trading at ~15x EV/EBITDA, the acquisition of 4.7GW high-quality renewable assets at ~7x EV/EBITDA unlocks ~INR57 in value, we estimate.
- **High-quality assets:** We like the overall quality of assets. Key highlights include: 1) interest cost for O2 Power at 8.8% is competitive and at par with JSWE itself; 2) receivable days at 43 for the asset portfolio are in fact lower than JSWE's receivable days at 68 (FY24); 3) 87% of the portfolio is backed by utilities such as SECI/NTPC/SJVN, while the 13% C&I portfolio largely comprises AA or higher rated issuers; 4) we like the diverse nature of the asset portfolio encompassing solar, wind, and niche segments such as FDRE.
- **High transmission and land visibility:** O2 Power has full transmission connectivity for its entire 4.7GW portfolio, and the entire under-construction pipeline is backed by Power Purchase Agreements (PPAs). We believe this is crucial in providing confidence to the market about the timely execution of the project pipeline.
- **Savings from in-house EPC/O&M:** Lastly, while the steady-state EBITDA from the 4.7GW portfolio is guided at INR37.5b, we believe there is potential for further upside due to JSWE carrying out the EPC/O&M of assets in-house.
- **Transitory rise in leverage:** Should both the KSK Mahanadi and O2 Power deals be consummated by the end of FY25, we estimate JSWE's net debt/EBITDA for FY26 to rise to 5.4x (current estimate: 4.7x). However, given the strong operating cash flow generation and the company's ability to raise funds, we believe the transitory rise in leverage should not be a major concern.
- **We have a buy rating on JSWE with an SOTP-based TP of INR810/share.**

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.
- 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.

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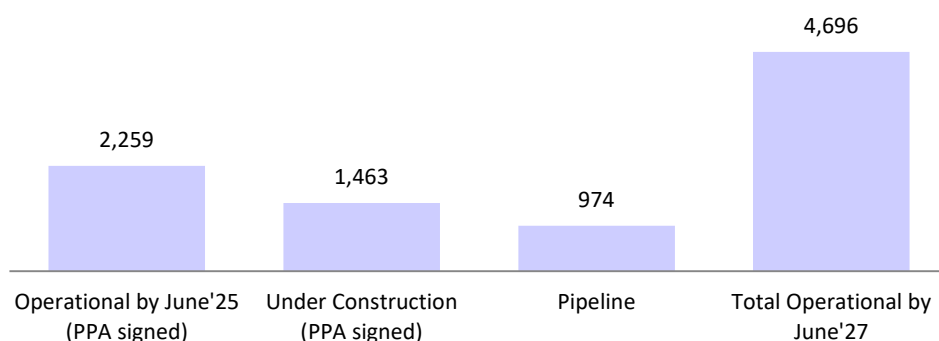
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JSWE's acquisition of O2 Power

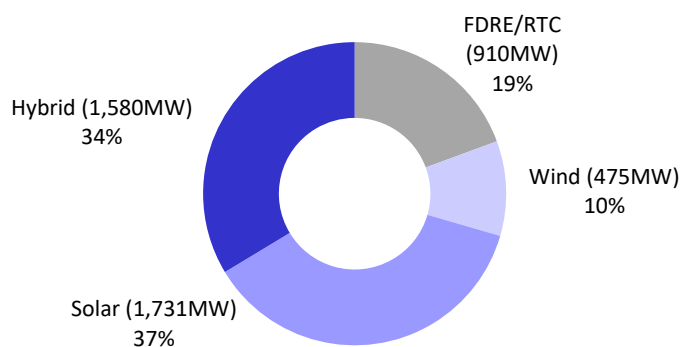
- **Acquisition announcement:** On 27th Dec'24, JSWE announced that its wholly-owned subsidiary, JSW Neo Energy Limited (JSWNEL), signed a definitive agreement to acquire O2 Power Midco Holdings Pte. Limited, O2 Energy SG Pte. Limited, and their subsidiaries. The acquisition includes an RE portfolio of 4.7GW, comprising operational, under-construction, and development assets.
- **O2 Power's overview:** O2 Power, established in 2020 as a joint venture between EQT Infrastructure and Temasek, has a diverse locked-in capacity of 4.7GW (including solar, wind, hybrid, and FDRE/RTC projects). Its off-taker profile includes 87% utility-scale projects, such as SECI and SJVN (4,100 MW), and 13% C&I (596 MW) projects. With a healthy average receivables period of ~43 days and an interest cost of 8.8% (FY24), O2 Power demonstrates financial efficiency.

Exhibit 1: O2 Power's capacity (MW)



Source: Company, MOFSL

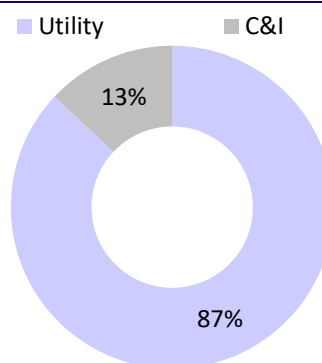
- **Transaction overview and timeline:** The transaction, valued at an EV of ~INR124.68b, is subject to regulatory and customary approvals, including clearance from the Competition Commission of India (CCI) and lenders' consent. Upon completion, which is expected by 26th May'25, the O2 entities will become subsidiaries of JSWNEL and step-down subsidiaries of JSWE.
- **JSWE's capacity growth:** JSWE's total locked-in generation capacity stands at 20GW, which includes 7.7GW of operational assets, 2.1GW under construction (commissioning expected by FY25-end), and an RE pipeline of ~10.2GW. The acquisition of O2 Power, with a capacity of 4,696MW (2,259MW operational by Jun'25, 1,463MW under construction, and 974MW in the pipeline by Jun'27), marks a key milestone. This acquisition will increase JSWE's locked-in capacity by 23%, from 20,012MW to 24,708MW, advancing the company toward achieving its 20GW renewable energy target well ahead of FY30.

Exhibit 2: Break-up of O2 Power's 4,696MW locked-in capacity

Source: Company, MOFSL

Acquisition rationale

- **Growth acceleration:** Adds 4.7 GW of RE capacity, including 2.3GW operational by Jun'25, increasing the locked-in capacity by 23% to ~25GW
- **Value accretive transaction:** Priced at ~7x EV/EBITDA, with a steady run-rate EBITDA of INR37.5b (at 4.7GW) and equity IRR > 17%
- **Experienced team:** Includes a proven management team and 370 skilled employees with a strong execution and profitability focus
- **Resources:** Secured 900MW transmission approvals beyond 4.7GW, 808MW under approval, and 40% of land requirements for the pipeline
- **High-quality off-takers:** Adds 596MW C&I capacity, increasing JSWE's total C&I capacity to 3.7GW, and includes a majority of utility projects backed by top-tier off-takers such as SECI, SJVN, and NTPC

Exhibit 3: Off-taker type for 4,696 MW locked-in capacity

Source: Company, MOFSL

- **O&M synergy:** JSWE's presence in five out of seven states where O2 Power operates provides significant synergy potential, leading to cost optimization in O&M
- **Strong credit metrics:** Blended tariff of INR3.37/kWh, low borrowing cost (8.8%), and ~43 days receivables cycle

Exhibit 1: Valuation of 2.3 GW capacity

Particulars	Amount (INRb)
Enterprise value before working capital adjustments	151.54
Net working capital	26.86
Enterprise value adjusted for net working capital (deal value)	124.68
EBITDA (steady state)	15
EV/EBITDA	8.3x

Source: Company, MOFSL

Exhibit 2: Valuation of 4.7 GW capacity

Particulars	Amount (INRb)
Enterprise value (deal value)	124.68
Expected capital expenditure	130 - 140
Enterprise value	254.68 - 264.68
EBITDA (steady state)	37.5
EV/EBITDA	6.8x - 7.1x

Source: Company, MOFSL

Concall highlights

- **Established capacity:** The acquisition adds a locked-in capacity of 4,696MW (2,259MW operational by Jun'25, 1,463MW under construction with PPAs, and 974MW in the pipeline by Jun'27).
- **Off-takers:** Approximately 87% of the capacity is tied to prominent off-takers, including SECI and SJVN, ensuring long-term revenue stability.
- **Transmission connectivity:** Beyond the 4.7GW capacity, the company has secured 900MW of additional connectivity, while 808MW has been applied for and is under process, further strengthening its grid integration.
- **Land acquisition:** 40% of the required land has already been acquired, providing clear visibility for the completion of the entire portfolio.
- **Integration:** The O2 Power portfolio will be integrated into JSWE's operations, contributing to streamlined management and enhanced synergies.
- **Blended tariff:** The blended tariff for the acquired portfolio stands at INR3.37/kWh.
- **EBITDA forecast:** The steady-state EBITDA is projected to be INR15b from ~2.3 capacity (operational by Jun'25), with the potential to increase to INR37.5b on a fully completed basis (4.7GW).
- **Valuation multiple:** The EV/EBITDA multiple for the transaction is estimated at 8.3x at EBITDA of INR15b (2.4GW operational capacity) and ~7x EV/EBITDA, at a steady run-rate EBITDA of INR37.5b (4.7GW operational capacity).
- **Operational portfolio:** Solar: 970 MW and Wind: 270 MW. The proportion of wind energy in the portfolio is expected to increase over time.
- **Receivables:** The company maintains a healthy receivables cycle of just 43 days.
- **State tie-ups:** The company's exposure to individual states is capped at a maximum of 20%.
- **Completion timeline:** The transaction is expected to be completed by 26th May'25.

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.
- 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.

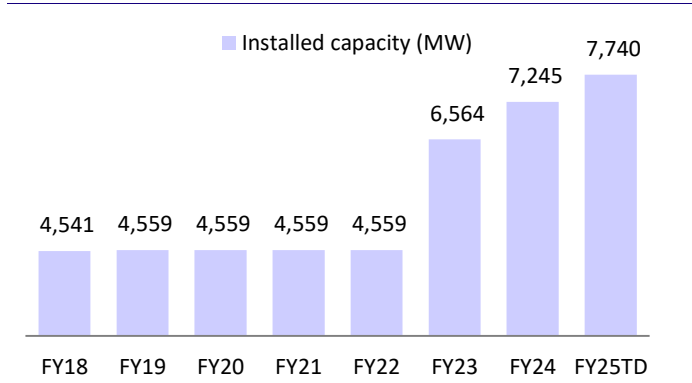
Exhibit 4: JSWE SoTP-based valuation

Particulars	Units	Amount
EBITDA - FY 27	INR m	1,15,539
Valuation multiple	(x)	15
EV	INR m	17,87,389
Less: Net Debt	INR m	4,21,602
Market cap	INR m	13,65,787
JSW Steel stake*	INR m	48,011
Total Equity value	INR m	14,13,799
Target price	INR/Share	810
CMP	INR/share	630
Upside/(Downside)		29%

*At 25% discount

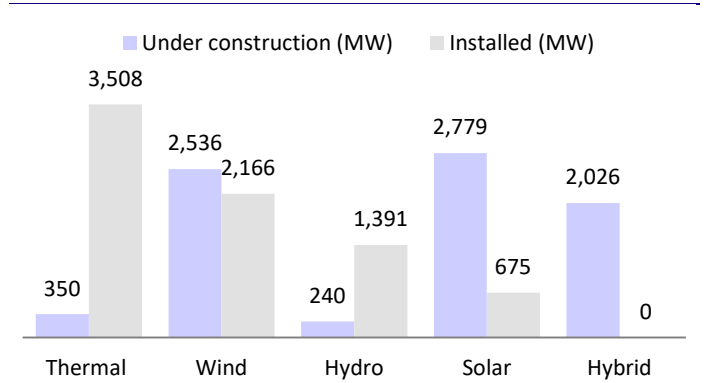
Source: MOFSL

Exhibit 5: Installed capacity growth



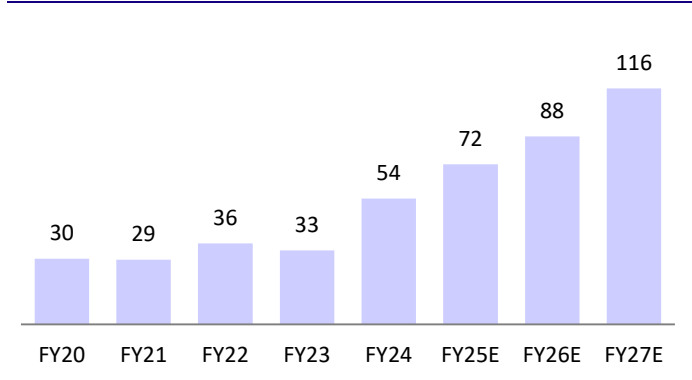
Source: Company, MOFSL

Exhibit 6: Capacity breakdown by 2QFY25 end



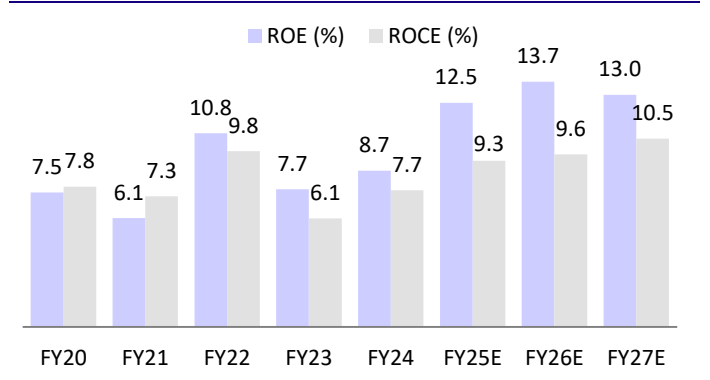
Source: Company, MOFSL

Exhibit 7: Consol. EBITDA (INRb)



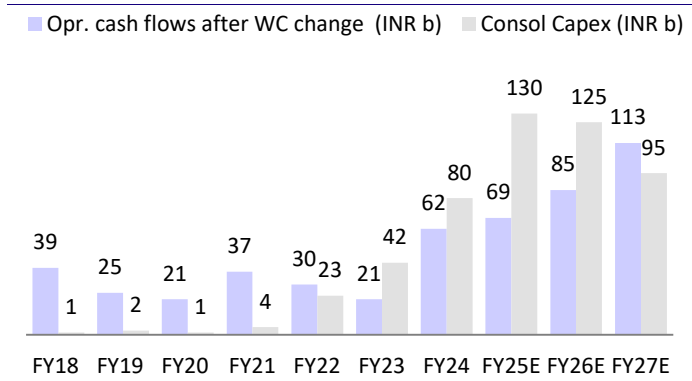
Source: Company, MOFSL

Exhibit 8: Consol. ROE and ROCE



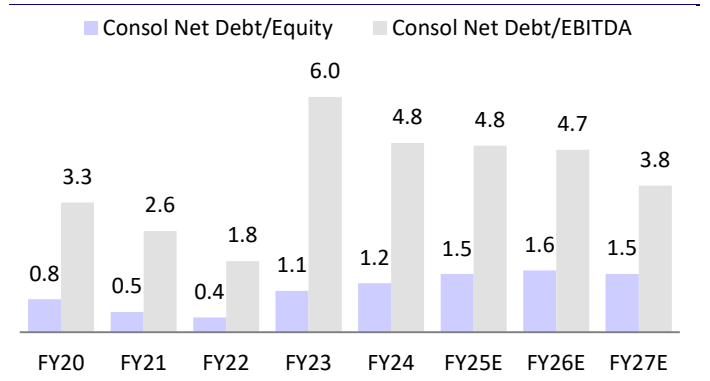
Source: Company, MOFSL

Exhibit 9: Capex ramp-up driven by 20GW capacity target



Source: Company, MOFSL

Exhibit 10: 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
Net Sales	1,03,318	1,14,859	1,46,017	1,67,956	2,01,476
Change (%)	26.5	11.2	27.1	15.0	20.0
EBITDA	32,818	53,818	72,044	88,031	1,15,539
% of Net Sales	31.8	46.9	49.3	52.4	57.3
Depreciation	11,692	16,334	16,800	20,152	32,990
EBIT	21,126	37,484	55,244	67,878	82,549
Net Interest	8,443	20,534	25,557	30,057	43,298
Other income	5,352	4,554	7,855	7,855	7,855
PBT before EO	18,036	21,504	37,541	45,676	47,106
EO expense	-1,200	0	0	0	0
PBT after EO	19,236	21,504	37,541	45,676	47,106
Tax	4,627	4,423	9,385	11,419	10,834
Rate (%)	24.1	20.6	25.0	25.0	23.0
JV	193	165	255	255	255
Minority	24	19	850	850	850
Reported PAT	14,778	17,227	27,561	33,662	35,677
Adjusted PAT	13,866	17,227	27,561	33,662	35,677
Change (%)	-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
Net Worth	1,86,288	2,08,317	2,31,195	2,59,682	2,90,184
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
Capital Employed	4,46,298	5,36,798	6,18,154	7,15,688	7,94,395
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
Net Fixed Assets	2,43,807	2,83,064	2,95,866	4,05,717	4,82,731
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
Curr. Assets	1,39,714	1,30,920	1,03,642	1,01,334	1,25,382
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
Curr. Liability & Prov.	41,119	45,893	50,458	55,464	62,816
Account Payables	12,741	13,437	18,002	23,008	30,359
Provisions & Others	28,378	32,456	32,456	32,456	32,456
Net Curr. Assets	98,595	85,028	53,183	45,870	62,567
Appl. of Funds	4,46,298	5,36,798	6,18,154	7,15,688	7,94,395

Financials and valuations

Ratios

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)					
EPS	8.5	10.5	15.8	19.3	20.4
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 (%)	0.3	0.3	0.4	0.5	0.5
Valuation (x)					
P/E	74.5	60.0	39.9	32.7	30.8
Cash P/E	40.4	30.8	24.8	20.4	16.0
P/BV	5.5	5.0	4.8	4.2	3.8
EV/EBITDA	37.5	24.0	20.0	17.2	13.3
Dividend Yield (%)	0.3	0.3	0.4	0.5	0.5
FCF (pre-interest) to EV (%)	-1.7	-1.4	-4.2	-2.6	1.2
Return Ratios (%)					
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
Working Capital Ratios					
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)					
Leverage Ratio (x)					
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
EBITDA	32,818	53,818	72,044	88,031	1,15,539
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
CF from Op. Activity	20,843	62,336	68,761	85,090	1,12,762
Capex	-42,363	-80,328	-1,30,000	-1,25,000	-95,000
FCFF	-21,520	-17,991	-61,239	-39,910	17,762
Interest income	2,342	1,894	0	0	0
Others	-30,074	-4,743	7,855	7,855	7,855
CF from Inv. Activity	-70,095	-83,177	-1,22,145	-1,17,145	-87,145
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
CF from Fin. Activity	74,838	22,947	25,015	30,023	-3,218
(Inc)/Dec in Cash	25,586	2,106	-28,370	-2,032	22,400
Opening balance	25,265	50,850	52,957	24,587	22,555
Closing balance (as per B/S)	50,850	52,957	24,587	22,555	44,954

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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

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