

JSW Energy | BUY

Acquisition of O2 power, fairly priced

JSW Energy acquires RE platform O2 Power with portfolio of 4,696 MW (2,259 MW to be operational by June 2025, 1,463 MW under construction, 974 MW in pipeline, all scheduled for commissioning by Jun'27) at an EV (adj for NWC) of INR 125 bn, the largest acquisition of the company. DCF valuation for the 2,259 MW of RE assets likely to be operational by Jun'25 indicates an implied EV/EBITDA multiple of 7.3x on FY27 earnings, given the recent acquisition of ACME Solar's 369 MW solar project by Blupine Energy at an EV/EBITDA multiple of 8.7x. Considering the advantages JSW Energy gains through this deal- accelerated addition of 2.3 GW to its RE portfolio, experienced management team, and improved visibility on its 10 GW by 2025 target, we believe the deal is fairly valued. We maintain BUY rating the stock with SOTP-based TP of 759.

- O2 Power:** O2 Power is a renewable energy platform which was jointly developed in 2020 by EQT Infrastructure (51% stake) and Temasek (49%). It has total capacity of 4,696 MW – where 2,259 MW will be operational by June 2025, 1,463 MW is currently under construction, and an additional 974 MW are in the pipeline, all scheduled for commissioning by Jun'27, as per guidance from the management. Total portfolio comprises of 910 MW of Firm and Dispatchable Renewable Energy (FDRE), 475 MW of wind power, 1,580 MW of hybrid projects, and 1,731 MW of solar power. The platform has a blended average tariff of INR 3.37/KWh with remaining life of ~23 years. The capacities are spread across seven resource-rich states of India catering to both utility-scale (87%) and Commercial & Industrial (C&I) markets (13%).
- Key Aspects of the Deal:**
 - The acquisition adds 4.7 GW RE portfolio to JSW Energy, increasing its locked-in capacity by 23% to c.25 GW.
 - The operational portfolio of 2.3 GW is valued at 7.3x EV/EBITDA as per our estimates (vs. 8.3x as guided).
 - The acquired RE portfolio is expected to achieve a run rate EBITDA of INR 37.7bn at full capacity (4.7 GW) as per our estimates (vs. 37.5bn guided).
 - The blended tariff of the O2 Power portfolio stands at INR 3.37 per unit.
 - O2 Power's cost of borrowing is competitive at 8.8%, supported by a strong credit rating.
 - Land acquisition is completed for 40% of the under-construction and pipeline portfolio, with visibility for securing land for the entire capacity.
 - O2 has connectivity for the entire 4.7 GW portfolio (900 MW approved and 808 MW under approval) giving a higher level of confidence of commissioning by Jun'27.
- Recent industry transaction (ACME Bluepine deal):** In Mar'24, ACME Solar divested its 369 MW solar portfolio to Blupine Energy at an EV/EBITDA multiple of 8.7x. The divested assets generated an EBITDA of INR 3.34bn in FY23.

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	1,03,318	1,14,859	1,46,900	1,89,125	2,13,252
Sales Growth (%)	26.5	11.2	27.9	28.7	12.8
EBITDA	32,818	53,818	74,446	97,630	1,21,935
EBITDA Margin (%)	31.8	46.9	50.7	51.6	57.2
Adjusted Net Profit	13,578	17,223	25,382	30,636	36,632
Diluted EPS (INR)	8.3	10.5	15.5	18.7	22.3
Diluted EPS Growth (%)	-21.3	26.8	47.4	20.7	19.6
ROIC (%)	7.0	9.3	10.7	12.6	13.8
ROE (%)	7.5	8.7	11.6	12.7	13.6
P/E (x)	77.7	61.2	41.6	34.4	28.8
P/B (x)	5.7	5.1	4.6	4.1	3.7
EV/EBITDA (x)	36.9	24.1	19.1	15.3	12.3
Dividend Yield (%)	0.3	0.4	0.4	0.5	0.6

Source: Company data, JM Financial. Note: Valuations as of 31/Dec/2024



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	759
Upside/(Downside)	18.1%
Previous Price Target	791
Change	-4.1%

Key Data – JSW IN

Current Market Price	INR643
Market cap (bn)	INR1,123.2/US\$13.1
Free Float	22%
Shares in issue (mn)	1,640.5
Diluted share (mn)	
3-mon avg daily val (mn)	INR2,060.3/US\$24.1
52-week range	805/404
Sensex/Nifty	78,139/23,645
INR/US\$	85.6

Price Performance

%	1M	6M	12M
Absolute	-1.8	-12.5	57.1
Relative*	0.3	-11.5	45.2

* To the BSE Sensex

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- **JM view:** DCF valuation for the 2,259 MW of RE assets likely to be operational by Jun'25 indicates an implied EV/EBITDA multiple of 7.3x on FY27 earnings. Considering the advantages JSW Energy gains through this deal- accelerated addition of 2.3 GW to its RE portfolio, experienced management team, and improved visibility on its 10 GW by 2025 target, we believe the deal is fairly valued.

Exhibit 1. Key Assumptions

Assumptions

Capacity	2,259 MW
Debt	80%
Equity	20%
Tariff	
-Solar	INR 3.2 per unit
-Wind	INR 3.7per unit
PLF	
-Solar	25%
-Wind	30%
Annual Solar degradation	0.5%
Cost of Debt	8.8%
Cost of Equity	13%
Tax Rate	25%

Source: Company, JM Financial

Exhibit 2. Calculation of Implied EV EBITDA

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y25
Revenue	9,472	16,508	16,439	16,370	16,302	16,234	16,166	16,098	16,031	15,002
O& M Expense	1,231	2,146	2,137	2,128	2,119	2,110	2,102	2,093	2,084	1,950
EBITDA	8,240	14,362	14,302	14,242	14,183	14,123	14,064	14,006	13,947	13,052
Margin (%)	87%	87%	87%	87%	87%	87%	87%	87%	87%	87%
Depreciation	2,626	2,226	2,226	2,226	2,226	2,226	2,226	2,226	2,226	2,226
EBIT	6,467	13,622	13,556	13,490	13,424	13,359	13,294	13,229	13,164	12,176
Interest	2,339	6,151	7,373	6,888	6,435	6,012	5,617	5,248	4,905	1,684
PBT	4,128	7,471	6,183	6,602	6,990	7,347	7,677	7,980	8,260	10,492
Tax	1,032	1,868	1,546	1,651	1,747	1,837	1,919	1,995	2,065	2,623
PAT	3,096	5,603	4,637	4,952	5,242	5,510	5,758	5,985	6,195	7,869
Margin (%)	33%	34%	28%	30%	32%	34%	36%	37%	39%	52%
Discount Rate (Cost of Equity)	13%									
Terminal Growth Rate	2%									
NPV	14,365									
Terminal Value	4,368									
Equity Value	18,733									
Debt	85,523									
Enterprise Value	104,255									
EV/EBITDA	7.3									

Source: JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	1,03,318	1,14,859	1,46,900	1,89,125	2,13,252	
Sales Growth	26.5%	11.2%	27.9%	28.7%	12.8%	
Other Operating Income	0	0	0	0	0	
Total Revenue	1,03,318	1,14,859	1,46,900	1,89,125	2,13,252	
Cost of Goods Sold/Op. Exp	59,373	47,070	55,103	64,982	65,202	
Personnel Cost	3,076	3,645	4,338	6,628	6,529	
Other Expenses	8,051	10,326	13,013	19,885	19,586	
EBITDA	32,818	53,818	74,446	97,630	1,21,935	
EBITDA Margin	31.8%	46.9%	50.7%	51.6%	57.2%	
EBITDA Growth	-8.0%	64.0%	38.3%	31.1%	24.9%	
Depn. & Amort.	11,692	16,334	19,822	23,345	28,419	
EBIT	21,126	37,484	54,624	74,285	93,516	
Other Income	5,352	4,554	4,782	5,021	5,272	
Finance Cost	8,443	20,534	25,676	38,555	50,024	
PBT before Excep. & Forex	18,036	21,504	33,730	40,751	48,765	
Excep. & Forex Inc./Loss(-)	-1,200	0	0	0	0	
PBT	16,836	21,504	33,730	40,751	48,765	
Taxes	4,627	4,423	8,490	10,257	12,274	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	217	189	189	189	189	
Reported Net Profit	12,401	17,247	25,405	30,659	36,656	
Adjusted Net Profit	13,578	17,223	25,382	30,636	36,632	
Net Margin	13.1%	15.0%	17.3%	16.2%	17.2%	
Diluted Share Cap. (mn)	1,640.5	1,640.5	1,640.5	1,640.5	1,640.5	
Diluted EPS (INR)	8.3	10.5	15.5	18.7	22.3	
Diluted EPS Growth	-21.3%	26.8%	47.4%	20.7%	19.6%	
Total Dividend + Tax	3,288	3,831	4,573	5,519	6,598	
Dividend Per Share (INR)	2.0	2.3	2.8	3.4	4.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	19,428	21,669	33,730	40,751	48,765	
Depn. & Amort.	11,692	16,334	19,822	23,345	28,419	
Net Interest Exp. / Inc. (-)	6,993	18,303	20,894	33,534	44,752	
Inc (-) / Dec in WCap.	-11,336	10,085	-5,299	-2,475	-1,414	
Others	-2,462	-197	41	41	41	
Taxes Paid	-3,473	-3,857	-8,490	-10,257	-12,274	
Operating Cash Flow	20,843	62,337	60,698	84,939	1,08,288	
Capex	-42,363	-80,328	-44,879	-1,12,256	-64,968	
Free Cash Flow	-21,520	-17,990	15,819	-27,317	43,321	
Inc (-) / Dec in Investments	-31,289	-4,981	-1,14,432	-1,576	-2,206	
Others	3,557	2,132	4,782	5,021	5,272	
Investing Cash Flow	-70,095	-83,177	-1,54,529	-1,08,811	-61,902	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-3,288	-3,468	-4,573	-5,519	-6,598	
Inc / Dec (-) in Loans	87,278	43,405	1,38,885	1,31,471	1,55,259	
Others	-5,940	-17,170	-31,757	-38,440	-49,941	
Financing Cash Flow	78,050	22,767	1,02,555	87,513	98,720	
Inc / Dec (-) in Cash	28,798	1,927	8,724	63,641	1,45,106	
Opening Cash Balance	11,341	40,139	42,066	50,790	1,14,431	
Closing Cash Balance	40,139	42,066	50,790	1,14,431	2,59,538	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	1,86,288	2,08,317	2,29,126	2,54,243	2,84,277	
Share Capital	16,405	16,412	16,412	16,412	16,412	
Reserves & Surplus	1,69,883	1,91,905	2,12,714	2,37,831	2,67,865	
Preference Share Capital	0	0	0	0	0	
Minority Interest	1,054	1,825	1,825	1,825	1,825	
Total Loans	1,95,312	2,80,252	4,19,137	5,50,608	7,05,867	
Def. Tax Liab. / Assets (-)	10,784	13,390	10,000	10,000	10,000	
Total - Equity & Liab.	3,93,438	5,03,784	6,60,088	8,16,676	10,01,969	
Net Fixed Assets	2,98,087	3,92,313	4,17,370	5,06,281	5,42,829	
Gross Fixed Assets	3,12,608	3,59,173	4,22,286	5,12,193	6,20,472	
Intangible Assets	19,555	28,580	28,580	28,580	28,580	
Less: Depn. & Amort.	81,958	98,292	1,18,113	1,41,459	1,69,878	
Capital WIP	47,882	1,02,851	84,617	1,06,966	63,654	
Investments	70,537	80,849	2,05,529	2,05,529	2,05,529	
Current Assets	1,18,793	1,09,529	1,19,991	1,93,468	3,45,500	
Inventories	9,871	8,307	10,624	13,678	15,423	
Sundry Debtors	15,319	8,442	18,111	23,317	26,291	
Cash & Bank Balances	40,139	42,066	50,790	1,14,431	2,59,538	
Loans & Advances	0	0	0	0	0	
Other Current Assets	53,465	50,714	40,466	42,042	44,248	
Current Liab. & Prov.	93,979	78,907	82,802	88,601	91,889	
Current Liabilities	16,664	19,649	23,606	29,391	32,696	
Provisions & Others	77,316	59,258	59,196	59,211	59,193	
Net Current Assets	24,814	30,622	37,189	1,04,867	2,53,611	
Total - Assets	3,93,438	5,03,784	6,60,089	8,16,677	10,01,969	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	13.1%	15.0%	17.3%	16.2%	17.2%	
Asset Turnover (x)	0.3	0.2	0.2	0.2	0.2	
Leverage Factor (x)	2.2	2.7	3.0	3.4	3.7	
RoE	7.5%	8.7%	11.6%	12.7%	13.6%	

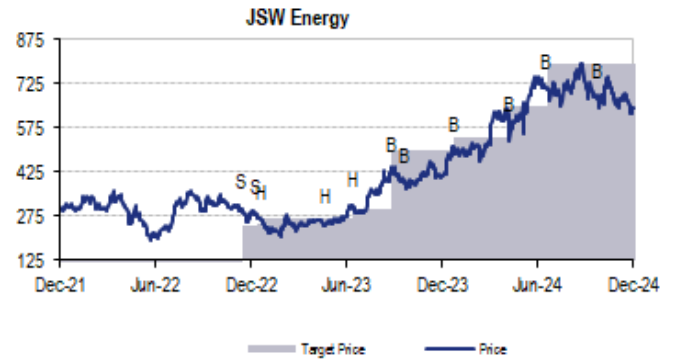
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	113.6	127.0	139.7	155.0	173.3	
ROIC	7.0%	9.3%	10.7%	12.6%	13.8%	
ROE	7.5%	8.7%	11.6%	12.7%	13.6%	
Net Debt/Equity (x)	0.8	1.1	1.6	1.7	1.6	
P/E (x)	77.7	61.2	41.6	34.4	28.8	
P/B (x)	5.7	5.1	4.6	4.1	3.7	
EV/EBITDA (x)	36.9	24.1	19.1	15.3	12.3	
EV/Sales (x)	11.7	11.3	9.7	7.9	7.0	
Debtor days	54	27	45	45	45	
Inventory days	35	26	26	26	26	
Creditor days	66	80	101	103	117	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
14-Dec-22	Sell	245	
11-Jan-23	Sell	250	2.2
21-Jan-23	Hold	270	8.0
24-May-23	Hold	270	-0.1
15-Jul-23	Hold	300	11.2
25-Sep-23	Buy	500	66.7
21-Oct-23	Buy	500	0.0
24-Jan-24	Buy	540	8.0
8-May-24	Buy	648	20.0
19-Jul-24	Buy	793	22.3
25-Oct-24	Buy	791	-0.2

Recommendation History



APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
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