JSW Energy

- JSW Energy has ~ 80% of its capacity tied up under PPA. With limited manufacturing capacity coming on stream, the Power demand/supply gap will shrink over the next few years benefitting players like JSW Energy who have spare capacity to sell in the Merchant market
- Moreover, with a Debt/Equity <0.9, ~2000 Cr Free Cash Flow Generation (post interest expenses) JSW Energy is well placed to invest for future growth (among the favourably placed to win troubled Power Assets at the NCLT).
- JSW Energy, has displayed significant capital allocation discipline in the past, and the cash generation means that the Market Cap/Enterprise Value ratio only keeps increasing over time as debt is repaid, even if additional power generation capacity is not being added.
- And at current market price it is trading below replacement cost and at <5x Free Cash Flow

Our call on JSW Energy is a non-consensus call. What do we see that others do not?

- Perhaps the market is unconvinced about how JSW Energy will utilize its Free Cash (does not trust Capital Allocation discipline post its announced intent to launch Electric Vehicles, now officially rescinded). However, JSW Energy has been very prudent on Capital Allocation in the past.
- Alternatively, the market is worried about terminal value of Thermal power players given the thrust on renewables. However, India needs Coal for base load, PPAs are long term, and almost 40% of JSW Energy EBITDA is from renewables at present
- It's a truism that markets chase momentum. The market may just be waiting for clear visibility of growth.
- Finally, the market tends to use P/E ratio for valuation and on P/E terms (~15X trailing) JSW Energy does not appear cheap. However, P/E is a short cut for valuation - ultimately what matters is cash flow and not accounting profits.

We shared a follow up on this note in our Q2FY20 letter. Link to the letter **here**.

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