Energy Companies

JSW Energy - 7th May 2024

- **Net Generation** up 27% YoY, driven by higher RE & thermal generation, partly offset by lower Hydro generation (-12% YoY)
- **Revenue** increased 3% YoY to 2,879 cr for Q4FY24 and 10% up to 11,941 cr in FY24.
- **EBITDA** increases 47% YoY to 1,292 cr for Q4FY24, margins at 45%. For FY24, Revenue increased 53% to 5,837 cr with margins at 49%. **EBITDA Margins** grew from 31% to 45% YoY for Q4FY24 and from 35% to 49% for FY24.
- **Profit After Tax (PAT)** increased 22.5% YoY to 351 cr for Q4FY24. For FY24, PAT increased 14.2% to 1,723 cr for FY24.
- **Assets:**

  Thermal Assets

  Total Capacity - 3,858 MW, Operational - 3,508 MW

  Renewable Assets

  Total Capacity - 9,382 MW, Operational - 3,782 MW, Under Cons - 2,200 MW, Pipeline - 3,400 MW.

  Total RE Segmentation - Wind 4,676 MW, Solar 3,075 MW, Hydro 1,631 MW

  In addition, the company has **3.4 GWh of locked-in energy storage capacity through battery energy storage system and hydro pumped storage project**. The Company aims to reach 20 GW generation capacity and 40 GWh of energy storage capacity before 2030. JSW Energy has set an ambitious target of achieving Carbon Neutrality by 2050.

- According to the management - new non-conventional energy business to be entered into like energy storage, renewable equipment like photovoltaic panels or wind turbine generators, batteries, green hydrogen, battery cell, battery module, battery packs for all kinds of transportation including group's entry into electric vehicles, etc.

- The company said it expects the power sector outlook to remain healthy over the medium term, aided by rapid urbanization, government led capex and a strong investment cycle. JSW Energy is looking at backward integration by getting into manufacturing for wind and solar power equipment to de-risk its growth plans from supply chain disruptions. ~ MoneyControl

- The company has one of the strongest balance sheets in the sector which gives it the headroom to pursue value accretive growth opportunities.

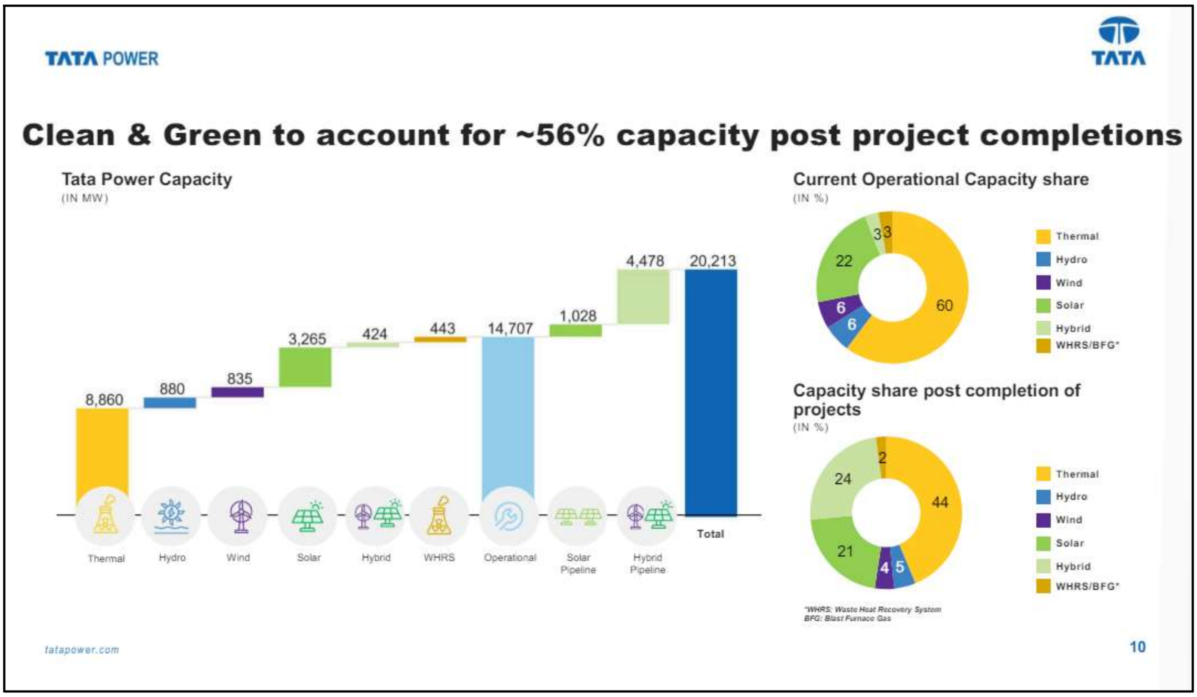
Tata Power - 8th May 2024

- **Revenue** increased by 11.5% to 61,449 cr in FY24. For Q4FY24, it increased 27.24% YoY to 15,847 cr.
- **EBITDA** increased by 26.15% to 12,701 in FY24. For Q4FY24, it increased 8.28% YoY to 3,101 cr.
- **PAT** increased by 12.33% to 4,280 cr in FY24. For Q4FY24, it increased 10.22% YoY to 1,046 cr.
- **ROE** reduced 130 bps from 12.6% to 11.3% in FY24.
  EPS increased from 10.43 from 11.02 in FY24.

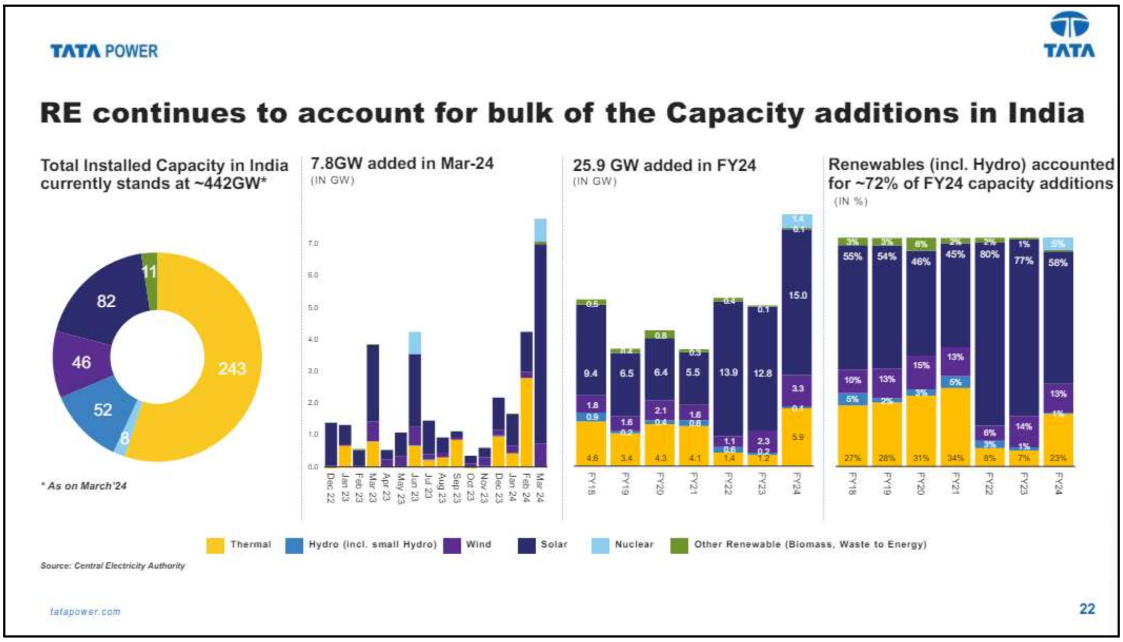
- **Generation and Transmission & Distribution Assets**
  Total Operational is 14.7 GW. Thermal is 8.8 GW, Renewables is the rest. Another 5.5 GW of Renewables under construction.
  By 2030, 70% capacity to be Clean & Green. Right now it is 40%.

  12.5 Mn customers in distribution. 4,626 Ckm of Operational Transmission lines & another 1,651 Ckm under construction.

- **Clean & green to account for 56% capacity post project completions**

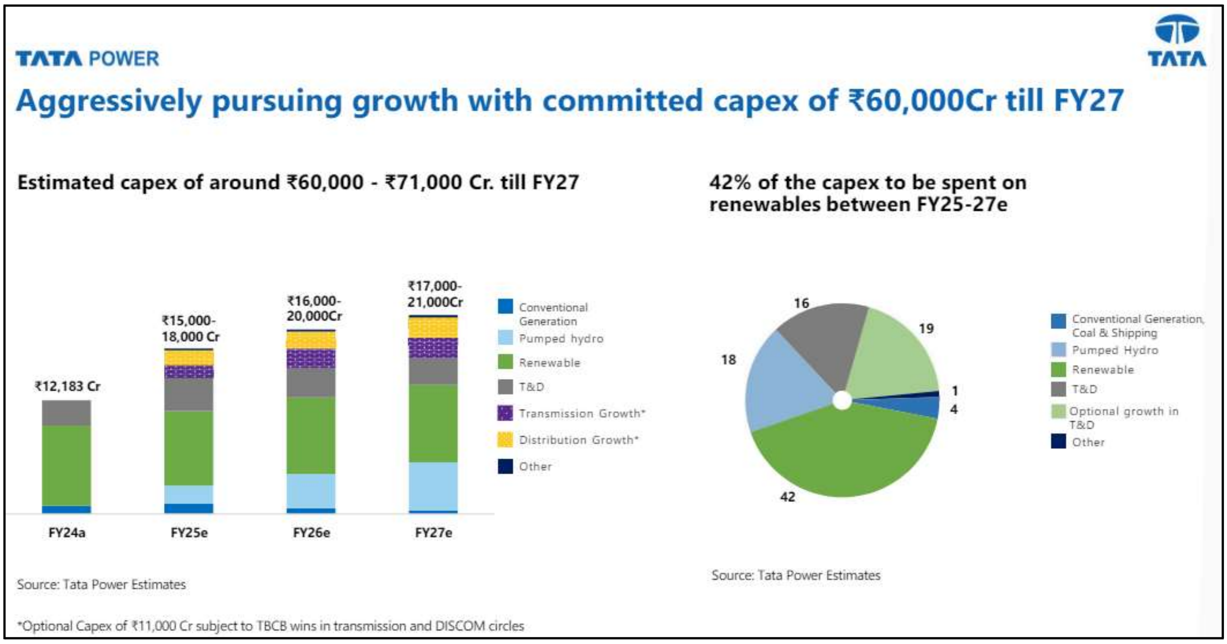


- **India's energy capacity overview**.



- Some Crucial Business Highlights
  (Very Important) Commercial production started from a 4.3 GW Cell & Module manufacturing plant with 130 MW modules produced during Q4FY24.
  Energized 144 public EV charging stations in Q4FY24 taking the total to around 5,500 public points across 530 cities.
  CRISIL upgraded the credit rating to AA+/ Stable from AA/ Positive.

- **Committed Capex of 60,000 cr till FY27**



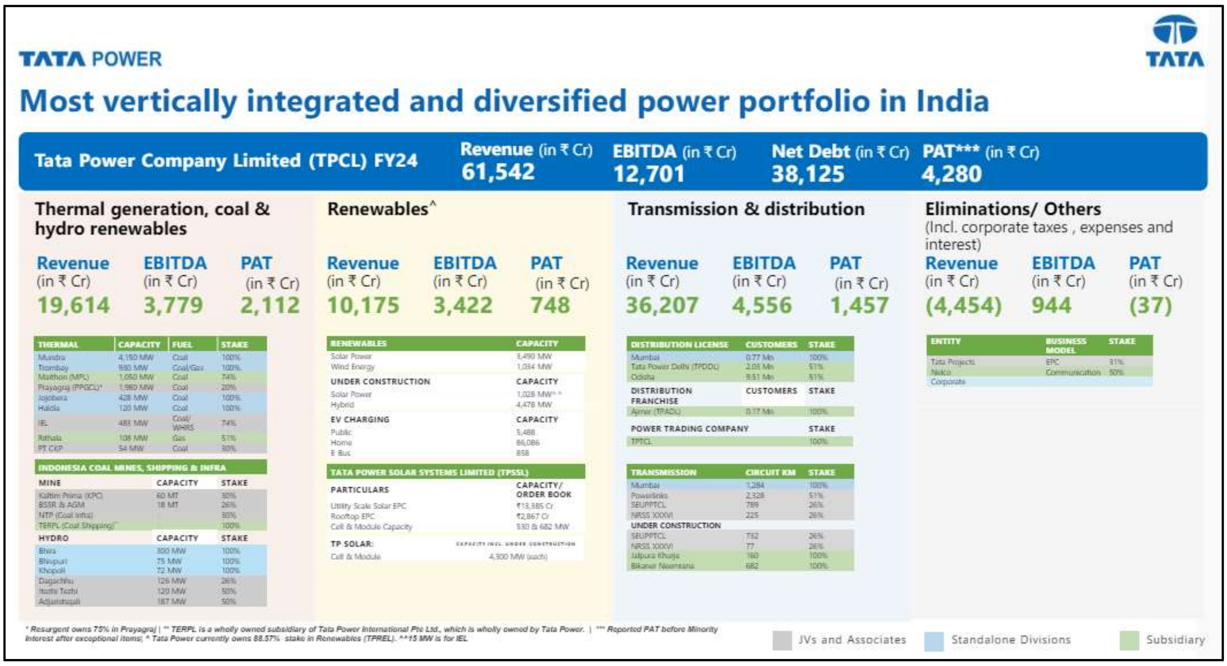
- **Important Updates regarding Rooftop Solar**
  Order book stands at 2,095 cr
  Tata Power is the market leader in Solar Rooftop EPC - market share 13.1%
  India has 14.5 GW installed solar rooftop capacity and is growing at 17% CAGR (since past 4 years).

- **Important Updates regarding Cell & Module Manufacturing Plant**
  Capacity - 4.3 GW
  First Cell Out in Q1FY25 and expectations of Complete Cell & Module line

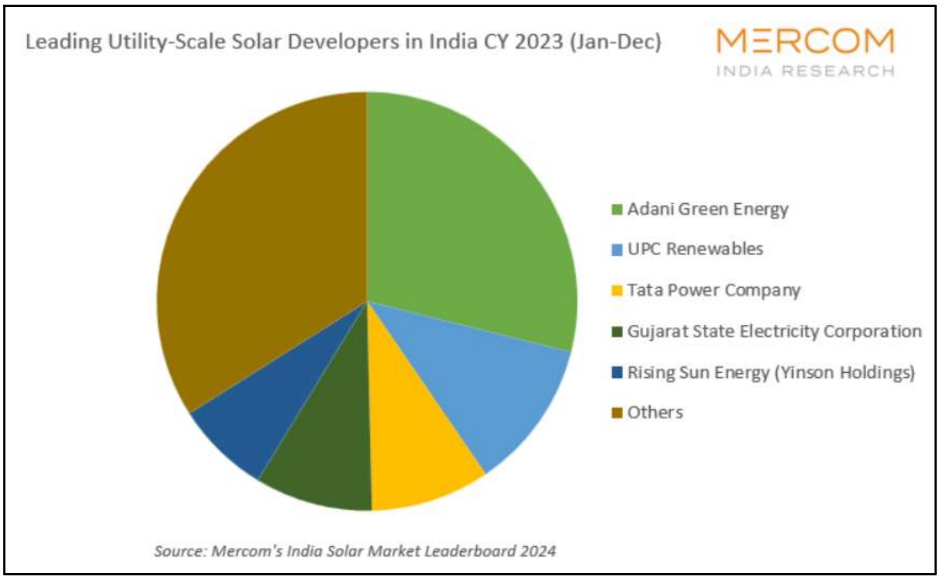
Ramp-Up 4.3 GW in Q2FY25

- **Debt Positions of the Company**
  Net Debt at 38,125 cr in FY24, down slightly from 38,599 cr in FY23.
  Net Debt to Equity (DE) ratio decreased to 0.99 in FY24 from 1.03 in FY23.

- **Complete Overview for FY24**



- Tata Power is the 3rd biggest Utility Scale developer.



Tata Power commissioned a 110 MW solar power project in Bikaner, Rajasthan. The project supplies green power to the Kerala State Electricity Board. In November 2023, the company won 200 MW as a part of SJVN's 1.5 GW Firm and Dispatchable Renewable Energy Project auction at a tariff ₹ 4.38 (~$ 0.0526)/kWh. The award includes an additional greenshoe capacity of 260 MW, bringing the total contracted capacity to 460 MW.

Target Prices for both - JSW Energy & Tata Power

JSW Energy

- **Jefferies**

Jefferies
The profitability improvement for the acquired portfolio is underway. The company plans to reach a 20 GW capacity target by FY30E. It forecasts a 33% EPS CAGR in FY24-27.

Jefferies maintained a buy rating on JSW Energy but raised the target price to Rs 690 from Rs 600 earlier.

- **JM Financial**

JM Financial
JM Financial said that it believes that JSW is right on track to achieve its target of 10GW/20GW RE capacity by 2025/2030 as the company added/secured greenfield RE capacity of 681MW/3.4GW during FY24 taking RE locked-in capacity to 13.2 GW along with SECI's 250MW/500MWh BESS project.

The brokerage has maintained its 'buy' rating while increasing the target price to Rs 648 from Rs 555 earlier.

- **Kotak**

Kotak Institutional Equities has maintained a 'sell' call on the stock after the Q4 result but revised the fair value to ₹275 against ₹235 earlier.

"JSW Energy continues to focus on an aggressive growth path, with investments in new thermal and renewable assets, as well a storage solutions. While the plans and execution are encouragin we believe all positives are captured in the current market price at 31 times FY26E EPS and 3 times P/B," Kotak said.

Tata Power

- **ICICI Securities research report on Tata Power - 490**

  Tata Power is building one of the best RE (renewable) platforms – a mix of asset-light and asset-heavy businesses. It has built: a) Renewable assets of 10GW b) solar manufacturing of 4GW, c) solar EPC arm d) rooftop solar and e) is currently developing two pumped storage systems. It also has the first mover advantage in the electric vehicle charging market. Among our coverage universe, it is the most comprehensive RE platform. It is likely to grow RE capacity to 2x in next 2 years, it is very close to commissioning 4GW of cell and module capacity and it has 13% market share in the rooftop solar market. In addition, It is one of the largest private Discoms in the country and is looking to grow the transmission business (won 2 bids in transmission). We resume coverage on the stock with target price of INR 490/share.

  Outlook - Tata Power reported adjusted profit of Rs.8bn (+5% YoY) in Q4FY24 and Rs.32bn (+3% YoY) in FY24. The muted profit growth was due to low international coal prices. We resume coverage on the stock with a SoTP-based target price of INR 490/share.

Fair Valuation

The fair value of JSW Energy comes in around 480 and the investors are willing to pay for the trade premium it commands right now because of bright future growth prospects.

The fair value of Tata Power comes in around 400-420 which is also the current market price. Tata Power deserves to command a trade premium because of its aggressive capex and growth.

See More Below

Overall, both companies have a bright future and can be accumulated at current market prices.

- Important things to know before fair valuation.
    a. Economies which have growing energy requirements typically have high debt energy companies. This is because of a long term growing capex cycle in order to fulfill energy demands and establish more power transmission lines.
    b. So there can be some easing towards debt to equity ratio and ratios like debt to EBITDA may be used too.
    c. India's power generation is assumed to grow at 7.7% CAGR and this includes the shift towards renewables.
    d. However the shift towards renewables can be a little bigger provided that all thermal power plants will be gone so this void plus the newly built renewable plants will combine to record an effective growth.
    e. The manufacturing of solar modules and battery storage systems is another growing segment.
    f. Energy is big for the next 5 years and it seems like almost every energy company listed today commands a trade premium. They are also reporting good earnings but still seem to be overvalued. It seems today's price

discounts most of the positives that may be underway for the next 1 to 2 years.

- Factors that may drive premium valuation in an energy company stock
    a. High growth potential.
    b. Strong competitive advantage.
    c. Consisting profitability.
    d. Industry leadership.
    e. Things to work on here :-
        - Look for power generation portfolios for all major energy companies.
        - Look for module manufacturing.
        - Look for share of renewables in power generation.
        - Look for the number of consecutive profitable quarters.
        - If possible, find market share in power generation.

- Ways to find a fair price or a potentially better price for JSW Energy. (Could be used in other stocks too)
    a. JSW Energy's big rally before October 2021 struck an overvaluation obstacle & corrected nearly 60% of the rally during Oct 2021 to July 2022. Some similar patterns are also found in the latest price movements. I can compare this rally with the previous rally & then the correction to find a potential bottom that can also reflect a fair price of the stock.

       Some additional accuracy & efficiency increasing metrics that can be studied with the above way are as follows -
        - PE & PEG ratios & their premium to the industry average.
        - Median PE & PEG ratio of the stock & its historical PE & PEG ratio.
        - Earnings, sentiments & news during previous correction.

    b. DCF & DDM

c. Target price reports of brokerages & analysts.

- Other important things that can impact my verdict.
  a. Very limited amount of free float shares (less room for fresh buying).
  b. Increase of FII holdings in April 2024.
  c. Mixed views of brokerages & analysts.
  d. Estimates beating results & continued capex may help reduce the correction from example 50% to just 20% - Due to less free float shares in the market, any big positive news may not boost the share price as investors won't be able to buy more and therefore may result in some consolidation making previous shareholders trigger profit booking & this may become the correction I'm anticipating before fresh demand gets induced by some positive event or news again.

Industry Average Based Method

- Important Data for comparing relevant major players in the Power Generation and Supply Companies.

Name	PE	PEG	EV	EV / EBITDA	DE	Power Portfolio in GW Thermal (operational) / Renewables (operational)
NTPC	17.67	1.3	3.449 Trillion	7.06	1.45	62.19 (62.19) / 16 (3.4)
Adani Green	253.76	26.43	3.342 T	45.66	6.6	0 (0) / 21.95 (10.93)
Adani Power	11.17	0.12	2.67 T	14.68	0.8	Almost everything into thermal power generation

Tata Power	35.91	3.35	1.816 T	16.84	1.66	8.8 (8.8) / 11.4 (5.9)
JSW Energy	54.47	3.09	1.26 T	23.44	1.52	3.86 (3.5) / 9.38 (3.78)
NHPC	25.53	246.19	949.55 B	18.17	0.77	0 (0) / 7.1 (7.1)
Torrent Power	34.43	0.6	637.49 B	14.04	0.9	2.73 (2.73) / 2.17 (0.92)
Effective Industry Avg *	34.43	2.195		16.84	1.45	
Industry Avg (including everyone above)	34.43	3.09		16.84	1.45	

*Industry Avg is after excluding outliers namely -
Adani Green for PE, PEG, EV/EBITDA & DE ratio.
Adani Power is completely excluded from Industry Avg because Adani's green portfolio is completely separated into Adani Green making it irrelevant to compare Adani Power to others regarding the future aspects of the industry.
NHPC for PEG. TTM earnings for NHPC in FY24 is down from FY23 so earnings growth is negative.

- Top companies to bet on the energy sector are as follows.
  Reasons to exclude NTPC, NHPC, Adani Green & Torrent Power -
  NTPC - One of the best companies in the energy sector today but going ahead, almost 80% of its power generation capacity will be gone because it is thermal.
  NHPC - Great company to invest in if you want to play a complete hydro powered renewable energy theme. FY24 may have hit a roadblock.
  Adani Green - Great company in the renewable sector but unfortunately it is highly overvalued.

Torrent Power - Nice company but still very small in size and capex to reap big benefits in India's booming energy theme.

Hence Tata Power & JSW Energy are probably the best companies to stay with if investing in the energy theme of India.

Now calculating current trade premiums or discounts as compared to the effective industry averages.

TATA POWER
PE & EV / EBITDA are largely inline.
PEG ratio is trading at nearly 52.6% premium.
DE ratio is trading at 15.1% premium which is not an issue citing the capex the company is doing and that this much debt level is easily manageable.

JSW ENERGY
PE is nearly 58.2% premium.
PEG is nearly 40.7% premium.
EV / EBITDA is nearly 39.1% premium.
DE is largely inline.

Effective Industry Avg *	34.43 PE	2.195 PEG	EV	16.84 EV/EBITDA	1.45 DE
Tata Power	35.91	3.35	1.816 T	16.84	1.66
JSW Energy	54.47	3.09	1.26 T	23.44	1.52

- Key takeaways from the above table & trade premiums of Tata Power & JSW Energy.

a. I think JSW Energy commands a higher premium than Tata Power due to the following reasons
    - Less debt levels compared to Tata Power.
    - Some events & news that may justify that JSW is going more aggressively in Renewables than Tata Power.
    - Tata Power being a legacy company has more thermal power production than JSW which the market may think as a negative.

b. Why Tata Power should have commanded a premium over JSW Energy. See reasons below.
    - Even though debt levels are high. Tata Power has a much better EV / EBITDA Ratio.
    - India's biggest solar module manufacturing plant will be commencing operations under Tata Power in Q1FY25
    - Even after being a legacy company, Tata Power's capex & shift towards renewables seems to be way more aggressive in reality.
    - Actually, Tata Power seems to be just a little overvalued than the industry average. You can even say it is largely inline and thus may command a premium going ahead, taking the crown from JSW in the coming years.

- Overall I think Tata Power & JSW Energy may attract more investors citing Adani Green's sky high valuations. And this alone should help both these companies to trade at a premium. Following are the premiums I believe over the effective industry average are genuine.

Effective Industry Avg *	34.43 PE	2.195 PEG	16.84 EV/EBITDA
Premiums I think are genuine & justified	40 16% premium. (even 20% may be okay)	3.63 Based on 40 PE	20 If Adani is 45, 20 is way nice.

- Based on the above table assumptions, finding possible fair prices of JSW Energy & Tata Power.

  JSW Energy
  As per the industry average assumption table, 40 PE includes a 16% trade premium over the industry average. **Current PE of JSW Energy of 54 may see a contraction of -26%. If the earnings remain unchanged, then the stock price of JSW energy may see a price contraction of -26% from current levels of 575 to 426.**
  (this is the maximum reduction in the stock price because here the assumption is that the earnings would remain the same but in reality it is assumed that energy companies will see massive increase in earnings)

  Tata Power
  As per the industry average assumption table, ……..
  Current PE of Tata Power of 36 may see an expansion of 10%. If the earnings remain unchanged, then the stock price of Tata Power may see a price expansion of 10% from current levels of 412 to 453.2
  (this is the minimum expansion in stock price because here also the assumption is that the earnings would remain the same but in reality it is assumed that energy companies will see massive increase in earnings)

Historical Valuation Based Method

- 3 year Historical PE data of Tata Power & JSW Energy

Stock	Current PE	3 yr Median Historical PE	3 yr PE CAGR approx	3 yr EPS CAGR	Forward EPS CAGR (FY24 to 26E)	3 yr Stock Price CAGR approx	Adjusted Growth

Tata Power	36	31	10.4%	48.5%	12.2%	58%	See Below
JSW Energy	54	41.6	30%	29.3%	23.2%	70%	See Below

- Some key requirements to find the fair price using historical PEs of the stock -
    a. Considering historical PE trends.
        - Historical PE trends of both, JSW Energy & Tata Power have ultimately been closer to their 3 Year Median PEs (with Tata being more closer than JSW). Both stocks have seen significant expansion in their PEs in the last 1 year i.e. FY23-FY24.

    b. Projecting Future Growth.
        - **Option 1** - Using the same 16% growth assumption which was earlier used in assuming trade premiums over the industry average brings consistency in justification but excludes the part of the future growth that has already been factored into the historical PE.

        - **Option 2** - Now that there has been a significant expansion in PEs of both stocks in the past 1 year, I can say that some part of the 16% growth assumption has already been factored into the prices right now, after looking at the 2 points below.
            - 3 year Stock Price CAGR - might capture some element of forward looking expectations in the CMP.
            - 3 year PE Ratio CAGR - Focuses on earnings growth for the past 3 year which have taken some future growth prospects into account already.

          This translates into some dilution in the growth assumption. Maybe using a 10-15% growth assumption works.

        - **Option 3** - Factoring in

- JSW Energy's forward EPS growth from FY24 to FY26 at 23.3%
- Tata Power's forward EPS growth from FY24 to FY26 at 12.2%

c. Translating Growth to PE Adjustments. (Base growth assumption is 16%)

- **Using Option 2 & 3 from 'b.'**
  - JSW Energy - A **lower than base adjusted growth assumption around 11%** citing the following reasons -
    a. Already expanded PE,
    b. Already factored in partial growth,
    c. Tata Power's stronger EPS growth, and
    d. Nearly double forward EPS growth estimate than Tata Power.

  - Tata Power - A **lower than base but higher than JSW adjusted growth assumption around 14%** citing the following reasons -
    a. Already factored in partial growth,
    b. Nearly half forward EPS growth estimate than JSW Energy,
    c. Less expanded PE and being closer to the 3 yr historical median,
    d. Massive 3 Year historical EPS growth which may not have been rewarded at scale, and
    e. Qualitative factors like the possibility of being a bigger direct beneficiary of the upcoming Rooftop Solar schemes & wider adoption of renewables than JSW.

d. Comparing fair values from this method to that of the Industry Average method to see if my estimates align. If there are not big deviations, then it's fine.

- Based on the above table assumptions, finding possible fair prices of JSW Energy & Tata Power.

  Way to find fair price -
  As per the historical average table, the adjusted growth assumptions will be added to the stock's 3 year historical average. The result (growth adjusted PE) will then act as a multiplier and hence will be multiplied by the TTM EPS to arrive at a fair value.

  JSW Energy
  Current PE = 54
  3 yr median PE = 41.6
  Growth Adjustment = 11%
  TM EPS = 10.47
  Growth Adjusted PE = 46.17
  Fair Price = 46.17 * 10.47 = **483.39** which is 16% below 575 (CMP).

  Tata Power
  Current PE = 36
  3 yr median PE = 31
  Growth Adjustment = 14%
  TTM EPS = 11.57
  Growth Adjusted PE = 35.34
  Fair Price = 35.34 * 11.57 = **408.88** which is largely in-line with 412 (CMP).

Chart Data Based Method

- Comparing the previous rally & correction cycle of the stock to estimate the % of rise or fall if similar price movements are recorded on the chart.

- Largely based on technical signals. Fib retracements will be used alongside.

- **JSW Energy**
  Weekly chart suggests a 10 week strong support at 480. The price was supported at 480 from early Jan 2024 to mid March 2024. 480 is also a possible fair price using the Historical Valuation Based Method. At 480 price, if the earnings remain unchanged, the PE comes at 45.84 vs the industry average of 34.43 which means a trade premium of nearly 33% which is decent.

  Another big support seems to be at 525 & 550. All the price levels are based on Fib levels.

  Looking at the charts and the fair prices I've calculated, it seems that 480 is the absolute fair price of the stock and the stock in general will continue to command a premium of around 30% over the effective industry average and a premium of around 15% over its historical average.

- **Tata Power**
  As per the fair prices calculated , it seems that Tata Power is well priced - neither overvalued or undervalued. In fact it seems that Tata Power should have commanded a premium over all the other industry peers except Adani Green because it's a completely different story.

  So according to the charts 370 & 400 looks like a great support as 370 acted as support for 8 weeks and 400 has acted as a support for 4 weeks in the recent past. There may be some short term ups & downs but the primary direction of the stock remains upwards and it wouldn't be a surprise to me if Tata Power goes up to 450 quickly.

Institutional Buying & Fund Raising

JSW Energy

- 2nd to 5th April - 5,000 cr raised from 97 qualified institutional buyers at a price of 475 per share.

  2 biggest investors in the issue are Goldman Sachs GQG Partners International Opportunities Fund (2.79 cr shares - 27.1% of total issue) and Nomura India Investment (1.03 cr shares - 10% of total issue).

  The QIP witnessed an overwhelming response resulting in over 3.2 times subscription. Few of the largest global asset managers like GQG, Blackrock, Nomura, Wellington, UBS and Abu Dhabi Investment Authority (ADIA) participated in the QIP, entrusting their confidence in the long term growth prospects of the Company.

- Shareholdings as per April 2024
  Promoters have diluted shareholding from 73.67% to 69.32% by raising more capital through the QIP route.
  FII shareholding has gone up from 8.37% to 13.34%
  DII shareholding has remained flat from 9.29% to 9.31%
  Public shareholding has reduced from 8.45% to 7.82%

Tata Power

- No recent fundraising
- Shareholdings as per March 2024
  Promoter holdings have been flat.
  FII shareholding decreased from 9.85% to 9.44%
  DII shareholding decreased from 16.11% to 15.47%
  Public shareholding increased just a little bit compensating the decrease by FIIs & DIIs.