

Mr. Pramod Menon
Chief Financial Officer
JSW Energy Limited
The Enclave, New Prabhadevi Road,
Off Appasaheb Marathe Marg,
Prabhadevi, Mumbai - 400 025

September 9, 2009

Confidential

Dear Sir,

IPO Grading

Please refer to your request for grading of the Initial Public Offering (IPO) of JSW Energy Ltd.

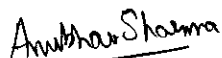
2. CARE has assigned '**CARE IPO Grade 4**' [**Grade Four**] to the proposed IPO issue of JSW Energy Ltd. '**CARE IPO Grade 4**' indicates **above average fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.
3. Please note that wherever '**CARE IPO Grade 4**' [**Grade Four**] appears, it should invariably be followed by the definition '**CARE IPO Grade 4**' [**Grade Four**] indicates 'above average fundamentals'.
4. The explanatory notes regarding the grading symbols of CARE for IPO grading are given in **Annexure 1**. The rationale for this grading will be communicated to you separately.
5. Please arrange to get the grading revalidated, in case the proposed IPO issue is not made within two months from the date of this letter.
6. Please note that the IPO grading is a one time exercise undertaken before an IPO issue and it does not have any ongoing validity.
7. Please note that as per the existing regulations, CARE is required to disclose all IPO gradings. As such, in the absence of any request for review of grading within a week of this letter, CARE will disclose this IPO grading to the public.



8. Please note that the disclaimer as given hereunder should be disclosed wherever the IPO grading assigned by CARE is mentioned, including offer document and issue prospectus.
9. If you need any clarification, you are welcome to approach us in this regard.

Thanking You,

Yours faithfully,


[Anubhav Sharma]
Dy. Manager


[Puneet Bhatia]
Manager

Encl : As above

DISCLAIMER:

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Annexure 1

CARE IPO grading Scale

CARE IPO grade	Evaluation
CARE IPO Grade 5	Strong fundamentals
CARE IPO Grade 4	Above average fundamentals
CARE IPO Grade 3	Average fundamentals
CARE IPO Grade 2	Below average fundamentals
CARE IPO Grade 1	Poor fundamentals

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October 9, 2009

Dear Sir,

IPO Grading

Please refer to our letter dated September 9, 2009 on the above subject.

2. The rationale for the IPO grading is attached as **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.
3. A write-up on the above IPO grading is proposed to be issued to the press shortly. A draft of the press release is enclosed for your perusal as **Annexure - II**.
4. We request you to peruse the Rationale and Press Release and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensuring that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 15, 2009, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,



[Puneet Bhatia]
Manager

Encl: As above

October 9, 2009

Annexure I
IPO Grading Rationale
JSW Energy Limited

IPO Grading

CARE IPO Grade 4

CARE has assigned a '**CARE IPO Grade 4'** [Grade Four] to the proposed IPO issue of JSW Energy Ltd. (JSWEL). '**CARE IPO Grade 4'** indicates **above average fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the relative assessment of the fundamentals of the issuer. JSWEL is proposing an IPO of equity shares up to Rs.3,000 crore.

The grading factors in the promoter's experience in setting up and operating thermal power plants, experienced and professional management, improved profitability in recent years, satisfactory corporate governance practices, achievement of financial closure (debt) for the proposed projects, presence of long-term fuel supply agreements, combination of long-term and short-term power off-take agreements and favourable industry scenario.

The grading is, however, constrained by project implementation risk involving multi-fold leap in capacity compared to present operations, exposure to volatile fuel prices and risk related to foreign exchange commitments.

Company Background

JSWEL, incorporated in 1994, is a part of the JSW Group, headed by Mr. Sajjan Jindal and having presence in the steel, power, cement, aluminium, software, power trading and infrastructure sectors. JSWEL is the holding company for the JSW group's power business. The company currently owns and operates thermal power plants in Karnataka with an aggregate capacity of 860 MW. It also provides operation & maintenance services for power plants of group companies and project management services for the power plants being set up by the group. JSWEL is currently in the process of enhancing its power generation capacity by 2,790 MW. It is also setting up a transmission line network and developing lignite mines through joint ventures.



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Management

JSWEL's Joint Managing Director and Chief Executive Officer - Mr. S.S. Rao, has about 39 years of experience in establishing and operating thermal power projects. He is assisted by a team of professionals having good experience in the power sector.

Corporate Governance

The company has four independent Directors out of total number of eight Directors on the Board. The existence of the independent and non-executive Directors, in letter and spirit, helps to separate the ownership and the management of the company. According to the SEBI guidelines, the company has formed committees such as Audit Committee, Remuneration Committee and Share Holders'/Investors' Grievances Committee.

Operations

JSWEL is engaged in the business of thermal power generation. It has an installed capacity of 860 MW, in Toranagallu Village, Bellary District, Karnataka divided into SBU-I (260 MW) and SBU-II (600 MW).

SBU - I (260-MW power plant)

JSWEL has a 2x130 MW dual fuel (coal and gas) power plant which is operational since 2000. Operation and maintenance of this power plant is handled internally by JSWEL. JSWEL has an agreement with JSW Steel Ltd (JSWSL) for the supply of fuel and water at cost to the power plant until 2031. JSWSL has the option of providing fuel by way of a mixture of gas or coal in any proportion. Currently, JSWSL is providing a significant portion of fuel in the form of coal, while in the past JSWSL has supplied fuel with significant portion being in the form of gas. JSWEL has also applied to the Ministry of Coal (MoC), Government of India (GoI), for a long-term coal linkage for this plant in order to reduce costs and reliance on fuel supply from JSWSL.

JSWEL currently sells power under two Power Purchase Agreements (PPAs). JSWEL has a long-term PPA with JSWSL upto March 31, 2012, for supply of power to JSWSL. The tariff is fixed at Rs.2.60 per kWh, with a base fuel cost of Rs.1.30 per kWh. Based on variations in the fuel cost from the base rate per kWh, corresponding adjustment is made to the above tariff. JSWEL also has a PPA with JSW Power Trading Company Ltd (JSWPTCL) for sale of surplus power after meeting JSWSL's power requirements.



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Capacity and Generation

Particulars	FY06	FY07	FY08	FY09
Installed Capacity (MW)	260	260	260	260
Gross Unit Generated (MU)	2,049	2,062	2,231	2,229
Auxiliary Consumption (%)	7.06	7.23	7.33	7.78
Availability Factor (%)	96.78	96.22	97.30	97.22
Plant Load Factor (PLF) (%)	89.96	90.54	97.67	97.88

SBU – II (600-MW power plant)

This project previously formed part of JSW Energy Vijayanagar Ltd (JSWEVL), which merged with JSWEL with effect from April 1, 2008. The project involved development of a coal-based power plant with two units of 300 MW each at Vijayanagar (Karnataka). The first 300 MW unit was commissioned in April 2009 and started commercial operations on July 1, 2009. The second unit was commissioned in July 2009 and is expected to start commercial power generation in November 2009.

JSWEL's SBU-II proposes to sell power under long-term PPAs to JSWSL (300 MW) and JSW Cement Ltd. (18 MW). For the balance, it has a short-term PPA with JSWPTCL. SBU II is currently purchasing a majority of its fuel requirement from the open market with a portion of the power plant's fuel requirements being satisfied by contracts with PT Sungai Belati Coal, Indonesia. Going forward, the fuel requirement is expected to be satisfied in full over a period of two years through fuel supply agreement with PT Sungai Belati Coal. JSWEL-SBU II has also applied to MoC, for a long-term domestic coal linkage for its power plants in order to reduce costs and price volatility on imported coal.

New Projects

JSWEL is currently expanding the power generation capacity by 2,790 MW on its own and through subsidiaries. Out of the four projects, two projects aggregating total capacity of 2,280 MW are under construction whereas two projects with total capacity of 510 MW are under implementation (where construction work has not begun). The company is also setting up transmission lines in the State of Maharashtra and developing lignite mine in State of Rajasthan. The cost of all these projects is estimated at Rs.14,048 crore and is being funded in a debt to equity ratio of 2.45:1 i.e. long-term debt of Rs.9,979.50 crore and equity of Rs.4,068.50 crore. The company has already tied up the total debt component while, funds aggregating Rs.5,982 crore were deployed in the various projects as on June 30, 2009.

Power Generation Projects:

The projects are being carried out through subsidiaries JSW Energy (Ratnagiri) Ltd (JSWERL) 1,200 MW and Raj West Power Ltd (RWPL) 1,350 MW. Additionally, JSWEL is setting up a hydro project of 240 MW capacity on its own in Kutehr, Himachal Pradesh.

JSWEL has entered into a fuel supply as well as fuel transportation agreements for its projects and plans to sell the power generated in a combination of long-term and short-term PPAs. The brief particulars of the power projects are as under –

Particulars	JSWERL	RWPL (Phase-I)	RWPL (Phase-II)	JSWEL (Kutehr)
Location	Maharashtra	Rajasthan	Rajasthan	Himachal Pradesh
Fuel	Coal	Lignite	Lignite / Coal	Hydro
Capacity (MW)	1,200	1,080	270	240
Status	Under construction	Under construction	Under implementation	Under implementation
COD*	April, 2011	April, 2011	January, 2013	September, 2015
Financial Information (Rs. crore)				
Project Cost	4,500	5,000	1,350	1,915
- Equity	1,125	1,250	338	8350
- Debt	3,375	3,750	1,012	1,080
Amount deployed as on 30/06/2009	2,029	3,677	62	12
As a % of total cost	45	74	5	1
- Equity as on 30/06/2009	706	962	62	12
- Debt as on 30/06/2009	1,323	2,715	-	-
Power off-take arrangements				
Type	Long- term and short-term PPA #	Long-term PPA with Rajasthan State Discoms	Short-term PPA with JSWPTCL	Short-term PPA with JSWPTCL
Fuel Supply Arrangements				
Supplier	PT Sungai Belati Coal, Indonesia	BLMCL	BLMCL and PT Sungai Belati Coal, Indonesia	* N.A.

* Commercial Operation Date

Long-term PPA with Maharashtra State Electricity Distribution Co. Ltd for 300 MW, long-term PPA with Adani Enterprise Ltd for 270 MW and Short-term PPA with JSWPTCL for the balance.

Although, JSWEL has prior experience of constructing power plant (with operational power generation capacity at 860 MW), managing such a magnitude of projects, without any cost and time overrun, posts a project execution risk.

Lignite mining project

Barmer Lignite Mining Company Ltd (BLMCL) is a 51:49 joint venture of RWPL and Rajasthan State Mines and Minerals Limited (RSMML). BLMCL is developing the Jalipa and

Kapurdi mines for the supply of lignite to the 1,350 MW lignite-based power project being set up by RWPL in Rajasthan. The cost of the mine project is estimated at Rs.702.84 crore, to be funded in the debt to equity ratio of 1.15:1. As of June 30, 2009, BLMCL had spent about Rs.85 crore on the project. BLMCL expects to commission the mines by July 2010 which is proposed to ramp up to full capacity over a period of three years.

Transmission network project

Jaigad Power Transco Ltd (JPTL) is a 74:26 joint venture of JSWEL and Maharashtra State Electricity Transmission Co.Ltd (MSETCL). JPTL is constructing two 400-kV double-circuit transmission lines from JSWERL plant at Jaigad (Maharashtra) to the state utility sub-stations located at New Koyna and Karad, approximately 57 km and 112 km away, respectively. The cost of the project estimated at Rs.580 crore, is being financed by equity of Rs.145 crore and tied-up debt of Rs.435 crore. As of June 30, 2009, JPTL had spent Rs.105.92 crore on the project. JPTL expects to complete the construction and commissioning of the transmission lines by June 2010.

IPO Issue Details

JSWEL is proposing to make an IPO of equity shares (number of equity shares not yet ascertained) for cash at the market-determined price per share, having face value of Rs.10 per share. JSWEL proposed to raise upto Rs.3,000 crore from the IPO. The proceeds from the issue of shares are intended to be deployed as follows:

1. To partially finance construction and development of the identified projects aggregating 2,790 MW in power generation capacity, the 400-KV transmission line project (JPTL) and the lignite mining venture (BLMCL).
2. Repayment of corporate debt.
3. General corporate purposes.

Financial Results

Net sales increased at a Compounded Annual Growth Rate (CAGR) of 32.46% from FY06 to FY09 due to improved PLF and higher tariffs. In FY09, net sales increased by 33.27% y-o-y mainly due to improvement in average sales realisation from Rs.4.48 per unit to Rs.6.00 per unit driven by improvement in realisation from short-term sale of power through JSWPTCL. Other operating income included sale of Certified Emission Reduction (CER), project management fee for setting up power plants of various subsidiaries and income from



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operating & maintenance services. Other income was higher in FY08 mainly due to sales of CER amounting to Rs.327.56 crore, a one-time income. Consequently, total income was flat in FY09, while PBILDT dipped by Rs.265 crore, as there was no CER income in FY09.

PBILDT margin dipped in FY09 due to absence of CER income coupled with sharp increase in cost of fuel from Rs.312 crore in FY08 to Rs.620 crore in FY09, which the company could not fully pass on to its customers. However, JSWEL still enjoys higher PBILDT margin by way of selling power through short-term PPA, where it enjoys higher realisation. Interest expenses increased sharply in FY09 due to increase in long-term debt for ongoing projects as well as additional general purpose loan availed by the company. Increase in interest cost and lower PBILT caused a dip in the interest coverage ratio in FY09. PAT dipped by 33.39% in FY09 due to dip in PBILDT and higher interest cost.

Networth of JSWEL increased as at end-FY09 due to amalgamation of JSWEVL & JSWPT with JSWEL coupled with accretion to reserves in FY09. The gearing ratios increased sharply as at end-FY09 due to increase in total debt. Total debt increased as at end-FY09 due to general corporate purpose loan availed and amalgamation of JSWEVL, which has set up a 600-MW power plant at the cost of Rs.1,860 crore, funded in the debt to equity ratio of 3:1. EPS declined from Rs.16.83 in FY08 to Rs.10.58 in FY09 on account of lower profitability in FY09 as well increase in number of equity shares in FY09 due to amalgamation of JSWEVL and JSWPTL with JSWEL.

Industry Outlook

The GoI has developed a national electricity policy, which aims at accelerating the development of the power sector which includes setting up additional power generation capacities. This policy is being promoted by the Ministry of Power as 'Mission 2012: Power for All'. By 2011-12, the total energy requirement and peak demand is projected to increase to 974,974 million units and 157,107 MW, respectively. The country faced average energy deficit of 11% and peak deficit of 12.7% in the year 2008-09. According to the Central Electricity Authority (CEA), as on July 31, 2009, India had an installed power generation capacity of 151,073 MW (excluding captive capacity of 19,509 MW). Thermal power plants powered by coal, gas, naphtha or oil accounted for 64.1%, hydroelectric stations accounted for 24.4% and other sources (including renewable sources of energy and nuclear stations) accounted for 11.5% of the total power capacity. The Central Public Sector Units (PSUs)



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accounted for 33.10%, various state entities accounted for 51.44% and private sector companies accounted for 15.46% of the total power generation capacity. During the Eleventh Five Year Plan, GoI is targeting to add another 78,700 MW capacity. Out of a total target capacity of 27,397 MW for the first two years of 11th plan, only 12,717 MW (around 46%) could be added.

Prospects

Future growth prospects of the company largely depend on the successful completion of the projects. All the projects under implementation or construction stage require additional equity contribution of Rs.2,157 crore from JSWEL. Any delay in the equity infusion, or absence of alternate funding arrangement would hamper the progress of the projects. However, in the past JSWEL has been able to infuse equity in the projects through internal accruals. On the successful commissioning of the projects, JSWEL would have benefit of the prevailing high merchant tariff for short term. Given the significant power supply deficit in the country, low per capita consumption of power in India compared to the world average and GoI recognising the power sector as a key infrastructure sector to be developed to sustain Indian economic growth, prospects for growth are favourable for companies in the power sector.

Financials

(Rs. crore)

For the year / As on March 31,	Mar-06	Mar-07	Mar-08	Mar-09
Working Results				
Net Sales (Power)	531	730	926	1,234
Other Operating Income	11	49	648	357
Total Income	542	779	1,574	1,591
PBILDT	241	456	1,108	844
Interest and Finance Charges	46	63	83	120
Depreciation	58	58	59	60
PAT (After Deferred Tax)	119	319	868	578
Gross Cash Accruals	192	389	939	651
Financial Position				
Net Fixed Assets	716	667	617	568
Net Working Capital	90	105	7	(49)
Equity Share Capital	289	347	515	547
Tangible net worth	726	917	1,339	2,046



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For the year / As on March 31,	Mar-06	Mar-07	Mar-08	Mar-09
Total Debt	438	617	850	2,331
Total Capital Employed	1,164	1,534	2,189	4,378
Ratios				
Profitability (%)				
PBILDT / Total Operating Income	44.51	58.54	70.38	53.07
PAT / Total Income	21.92	40.96	55.14	36.33
ROCE	-	31.94	57.71	23.98
RONW	-	38.87	76.93	34.15
Solvency (times)				
Long Term Debt Equity Ratio	0.58	0.54	0.62	1.13
Overall Gearing Ratio	0.60	0.67	0.63	1.14
Interest Coverage	4.00	6.33	12.63	6.52
Total Term Debt / Gross Cash Accruals	2.17	1.27	0.88	3.55
Liquidity				
Current Ratio	0.87	0.65	0.75	0.97 [^]
Quick Ratio	0.79	0.58	0.68	0.86 [^]
Turnover				
Average Collection Period (Days)	-	50	28	28
Average Creditors (Days)	-	67	80	64
Average Inventory (Days)	-	26	21	15
Book Value Per Share (Rs.)	25.11	26.43	26.02	37.44
EPS (Rs.)	4.11	9.21	16.86	10.58

[^] excluding project-related creditors.

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Annexure II

Press Release

CARE assigns 'CARE IPO Grade 4' to the proposed IPO of JSW Energy Ltd.

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IPO Grading Rationale

The grading factors in the promoter's experience in setting up and operating thermal power plants, experienced and professional management, improved profitability in recent years, satisfactory corporate governance practices, achievement of financial closure (debt) for the proposed projects, presence of long-term fuel supply agreements, combination of long-term and short-term power off-take agreements and favourable industry scenario.

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Company Profile

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October 9, 2009

developing lignite mines through joint ventures. The total project cost is estimated at Rs.14,048 crore which is being funded in a debt to equity ratio of 2.45:1. The company has already tied up the total debt component of the project cost. As on June 30, 2009, funds aggregating Rs.5,982 crore were deployed in the projects. JSWEL has entered into a fuel supply as well as fuel transportation agreements for its projects and plans to sell the power generated in a combination of long-term and short-term Power Purchase Agreements (PPAs). Although JSWEL has prior experience of constructing power plant (with operational power generation capacity at 860 MW), implementing such projects posts a project execution risk.

JSWEL's net sales increased from Rs.531 crore in FY06 to Rs.1,234 crore in FY09, a Compounded Annual Growth Rate (CAGR) of 32.46% led by improvement in Plant Load Factor (PLF) and sales realisation over the years. In FY09, net sales of JSWEL increased by 33.27% y-o-y, mainly due to improvement in average sales realisation from Rs.4.48 per unit to Rs.6.00 per unit driven by improvement in realisation from short-term sale of power through JSW Power Trading Co. Ltd. Other operating income declined from Rs.648 crore in FY08 to Rs.357 crore in FY09 mainly due to absence of Certified Emission Reduction (CER) income, which was a one-time income in FY08 aggregating Rs.327.56 crore. Consequently, total income was flat in FY09, while PBILDT declined from Rs.1,108 crore in FY08 to Rs.844 crore in FY09. PBILDT margin also dipped in FY09 to 53.07% from 70.38% in FY08 due to absence of CER income as well as due to sharp increase in cost of fuel from Rs.312 crore in FY08 to Rs.620 crore in FY09, which the company could not fully pass on to its customers. However, JSWEL still enjoys higher PBILDT margin by way of selling power through short-term PPA at higher tariff. PAT declined from Rs.868 crore in FY08 to Rs.578 crore in FY09 due to dip in PBILDT and increase in the interest cost. Interest expenses rose sharply in FY09 to Rs.120 crore due to increase in long-term debt for the ongoing projects and additional general purpose loan availed by the company.

Analyst Contact

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November 6, 2009

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[Anubhav Sharma]
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NS