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JSW Energy in talks to recast ₹6,000 crore debt under 5/25 scheme

JSW Energy will refinance the debt component of the ₹9,700 crore transaction to buy two hydropower assets from Jaiprakash Power

Newsletter

Vishwanath Nair | Amritha Pillay



Investor zone

JSW Energy is one of India's fastest growing power companies with 3,140 MW of operational capacity and 8,360 MW of projects under implementation and development phase which will take the total capacity to 11,500 MW.

The company's footprint covers Karnataka, Maharashtra and Rajasthan. The company has also identified projects which are under implementation and development stage in the above states, Jharkhand, Chhattisgarh, West Bengal and Himachal Pradesh. As a part of strategy to be an integrated Power Company, the company has integrated backward into Mining and is developing fuel resources in Rajasthan, Odisha and South Africa. The company has also successfully entered into the Power Transmission and Power Trading sectors and set up a joint venture to manufacture super-critical steam turbines and generators.

Highlights - Financial Year 2014-2015

	Standalone	Consolidated		(in Rs. crores)
Net Generation (Mw)		13,752	Revenue from Operations	6,190
Long Term Debt to EBITDA	1.77		Total Income	6,626
Long Term Debt to Equity Ratio	0.34		EBITDA before Exceptional Items	2,396
Interest Coverage	3.37		Profit Before Tax	1,356

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Share Price

Under the 5/25 scheme, banks can extend loan repayment periods up to 25 years, with an option of refinancing the loan every five years.

Mumbai: Power producer JSW Energy Ltd is in talks with banks to refinance debt worth ₹6,000 crore under the so-called 5/25 refinance scheme for long-gestation infrastructure projects, according to two bankers directly involved in the talks.

JSW Energy will refinance the debt component of the ₹9,700 crore transaction to buy two hydropower assets from Jaiprakash Power Ventures Ltd. Under the 5/25 scheme, banks can extend loan repayment periods up to 25 years, with an option of refinancing the loan every five years.

"Bankers are meeting in the first week of September to finalize a 5/25 refinancing for these two hydroelectric power projects, with a clause that the new management comes in within a stipulated period of time," said the executive director of a large state-run bank, who is involved in the discussions. The person declined to be named.

"There is a refinancing being done with a change in management clause," said a second banker involved in the talks, requesting anonymity.

Banks will clear the request because of JSW Energy's creditworthiness, the first banker said. "As of now, bankers representing majority of the ₹6,000 crore debt have agreed to enter this agreement. A formal approval is still pending."

JSW Energy, which had a consolidated debt of ₹8,210.57 crore as on 31 March, is one of the few power companies in India that have a relatively healthy balance sheet, allowing it to raise funds from banks easily to pursue its plan to buy distressed assets. Many power producers in India, struggling with huge debt, are trying to sell some of their assets.

JSW Energy agreed to buy the Baspa Stage II (300 megawatts, or MW) and Karcham Wangtoo (1,091MW) hydropower projects, both in Himachal Pradesh, in November. As part of the deal, the two hydropower assets were to be transferred to a special purpose vehicle (SPV) named Himachal Baspa Power Co. Ltd, followed by JSW Energy picking a 100% stake in the SPV.

"The assets have been transferred to JSW Energy's books," said a third public sector investment banker directly involved in JSW's purchase of the two hydropower assets from the Jaypee Group. The executive director from the public sector bank mentioned above confirmed completion of the transfer.

However, a spokesperson for Jaiprakash Power Ventures in an emailed response on Friday said: "The sale of the two Jaiprakash Power Ventures hydro units—Karcham Wangtoo and Baspa—is in advanced stage of completion, major approvals including that of Hon'ble High Court are in place and it is expected that the transaction will close shortly. The 5/25 refinancing is under consideration for our Nigrie Super Thermal Power Project." Jaiprakash Power operates a 1,320MW thermal power plant at Nigrie, Madhya Pradesh.

A detailed email query sent to JSW Energy was not answered.

The 5/25 scheme has found many takers from the power sector including the Jaypee Group, Adani Power Ltd and GMR Infrastructure Ltd.

"I would not be surprised if the company convinced bankers for a refinance by giving an alternative option of repaying the entire debt off. Banks dislike a prepayment from creditworthy clients," said a banker with a private investment bank who deals with power sector clients, on conditions of anonymity. The banker was not involved in the JSW Energy transaction.

Rating agency Icra Ltd in a 26 August report on Indian banks has also raised concerns over refinancing of unviable projects. "Flexible structuring of some large unviable projects/exposures and lack of external benchmarks on viability for refinancing/ restructuring is a credit concern," it said. Application of the refinance scheme to unviable projects, the report said, poses the risk of deferment of stressed asset recognition.

Vibha Batra, senior vice-president at Icra, does not see an issue with JSW Energy's refinancing request. "As far as the cash flows of a project match the serviceable debt, there should be no problem with approving a 5/25 refinancing, since the project would be viable," Batra said. "However, this viability differs significantly from project to project and so, this decision needs to be taken very carefully."

The Reserve Bank of India in its annual report said it will periodically examine randomly selected "5/25" deals to ensure they are facilitating genuine adjustment rather than becoming a backdoor means of postponing principal payments indefinitely.

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