

# Jindal Steel & Power

 BSE SENSEX  
 38,363

 S&P CNX  
 11,532

**CMP: INR170 TP: INR287 (+69%)**
**Buy**


## Stock Info

Bloomberg	JSP IN
Equity Shares (m)	968
M.Cap.(INRb)/(USDb)	164.3 / 2.4
52-Week Range (INR)	265 / 123
1, 6, 12 Rel. Per (%)	16/-28/-40
12M Avg Val (INR M)	2208
Free float (%)	41.3

## Financials Snapshot (INR b)

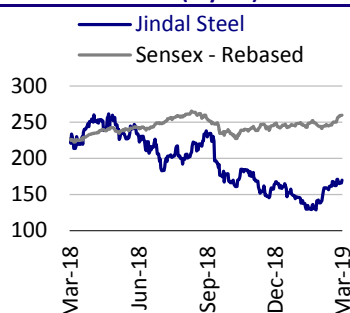
Y/E Mar	2019E	2020E	2021E
Net Sales	392.1	393.0	418.2
EBITDA	86.6	88.6	98.9
PAT	2.2	3.6	24.0
EPS (INR)	2.3	3.8	24.7
Gr. (%)	-127.2	63.1	558.2
BV/Sh (INR)	318.8	322.2	346.5
RoE (%)	0.7	1.2	7.4
RoCE (%)	5.6	5.8	8.1
P/E (x)	73.7	45.2	6.9
P/BV (x)	0.5	0.5	0.5

## Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	58.7	58.7	62.0
DII	9.3	11.1	6.4
FII	17.8	18.3	17.6
Others	14.3	12.0	14.1

FII Includes depository receipts

## Stock Performance (1-year)



## Angul progressing well on production

**Focus on deleveraging, valuations attractive**
**We visited Jindal Steel and Power's (JSP) Angul plant. Key highlights:**

- Increase in the production run-rate at Angul in 4QFY19 offers visibility of ~22% volume growth for the standalone company in FY20.
- Coal gasification and DRI units, too, have restarted operations. Moreover, the third battery of the 500ktpa coke oven unit is in the advance stage of commercial production, which will substitute coke imports, and thus, reduce costs. FCF generation is improving.
- Management remains focused on monetization of assets in the global venture and deleveraging. The stock trades attractively at a cash P/E of 3.6x. Power business, too, can secure PPAs, with DISCOMs now starting to invite bids. Maintain Buy.

## Key takeaways from our visit:

- **Coal gasification plant (CGP)**
  - We note that operations at this plant were halted in Jun'17, immediately after the commissioning of the blast furnace. However, gas production has restarted here in March after ~20 months. Two of the seven units are operating at ~90% utilization.
  - Ramp-up at CGP is dependent on DRI production. For running the DRI plant at full capacity, production at 5-6 units of CGP will have to be ramped up.
  - JSP is dependent on imported, e-auction and linkage coal for gasification. Such coal may be smoldered (given that it is received 60 days post production) and has higher volatile matter, leading to increased costs. Cost of gas production stands at USD10/mmbtu.
  - In contrast, if coal were made available from its erstwhile captive mine (de-allocated in 2014), the receiving time (post production) would be ~12 hours and cost of gas production would have been USD3-4/mmbtu.
- **Direct reduced iron (DRI)**
  - DRI plant has restarted in Mar'19 and is operating at a run-rate of ~1mtpa (3,000tpd at 50% utilization). JSP plans to increase the DRI utilization run-rate to ~80-85% by Sep'19.
  - JSP has started using surplus coke oven gases (two coke oven batteries commissioned last year) in DRI production. The third coke oven battery is likely to be commissioned in FY20.
  - Usage of coke oven gases in DRI production is likely to increase. Coke oven acts as a cost-effective substitute to syngas (gas obtained from CGP).
  - Full ramp-up of DRI would lead to savings of INR2,000-2,500/t for the unit.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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#### ■ Blast furnace (BF)

- BF is operating at a run-rate of ~3mtpa (9,000-9,500tpd). Total capacity stands at ~4mtpa. Coke rate is 400-410kg/thm.
- JSP expects BF production to ramp up to ~3.3mtpa in the near term.

#### ■ Coke oven

- Two batteries of 500ktpa are operational now. The third set of batteries with capacity of 500kt is in the advance stage of commissioning.
- Commissioning of the third coke oven battery would make Angul fully self-sufficient in terms of its coke requirements.

#### ■ Power plant

- Of the six units of the company's captive power plants (6x135MW), four units are operational. Internal consumption is ~400-500MW annually.

#### ■ Plate mill

- The 1.2mtpa plate mill is API-Q1 certified, which allows JSP to supply to offshore platforms such as oil rigs and critical pipes. It also provides products for the defense, wind, submarine and boiler markets.
- 20-25% of its volumes are exported, largely to the European and the Middle East markets.
- Plate mill yield is ~92%.

#### **Current steel production rate reinforces volume/FCF prospects**

With the DRI plant restarted now, total metallic availability is ~12,500tpd, which implies that annual steel production of 3.3mtpa is achievable. Thus, a total of 6.2mtpa of steel for standalone (our FY20 estimate, including Raigarh) is doable. We expect steel sales volumes to increase from ~3.8mt in FY18 to ~6.4mt by FY21, implying a CAGR of 19%. Operating leverage and related efficiencies will reduce the conversion cost. We expect consolidated EBITDA CAGR of ~15% over FY18-21. JSP should generate significant free cash flow as major capex is now behind.

#### **Changing power sector dynamics bode well for earnings**

Power business is still highly underutilized, with PLF hovering at ~35%. Oversupply in the power market has already started reducing owing to capacity addition and the retirement of old plants. Over the last 5-6 months, DISCOMs have become active in inviting medium- and long-term PPAs. There is visibility of nearly 7-8GW of such tenders, which will shrink merchant capacity availability by nearly 50% within the next 12 months. Therefore, we believe that JSP will be able to secure PPAs within the next few years, which will boost FCF further.

#### **Focus on debt reduction; valuations attractive; Maintain Buy**

JSP remains focused on debt reduction. USD740m (total: USD1.8b) debt of global venture has been restructured at LIBOR plus 350bp. JSP is also pursuing asset monetization, including stake sale in Oman through a structured deal. The stock trades at an attractive valuation of 6.4x FY20E EV/EBITDA, 3.6x cash P/E and an FCF yield of ~16%. We value the stock at INR287 (SOTP-based).

**Exhibit 1: Income statement (INR m)**

Y/E March	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Net sales</b>	<b>194,673</b>	<b>216,243</b>	<b>279,727</b>	<b>392,051</b>	<b>393,005</b>	<b>418,200</b>
<b>Steel business (incl. CPP)</b>	<b>164,523</b>	<b>185,053</b>	<b>238,917</b>	<b>355,986</b>	<b>347,941</b>	<b>357,205</b>
Standalone	137,865	144,492	176,545	272,987	286,054	294,692
Steel sales (kt)	3,380	3,350	3,760	5,120	6,228	6,353
Pellet sales (kt)	962	2,910	3,080	2,850	2,690	0
Oman	26,439	30,810	47,765	67,487	62,445	63,069
HBI (kt) production	1,509	1,500	1,500	1,500	1,500	0
Steel (kt) sales	1,050	1,330	1,670	1,695	1,700	0
Wollongong (GNM)	1,065	2,039	1,672	2,153	2,368	2,368
Coking coal (kt)	304	240	400	400	400	400
Others	-846	7,713	12,936	13,360	-2,925	-2,925
<b>Jindal power</b>	<b>30,150</b>	<b>31,190</b>	<b>40,810</b>	<b>36,064</b>	<b>45,064</b>	<b>60,995</b>
PLF (%)	29	31	37	41	43	60
Sales (Mkwh)	8,730	8,442	10,033	9,672	11,573	17,213
<b>EBITDA</b>	<b>34,410</b>	<b>46,613</b>	<b>64,691</b>	<b>86,638</b>	<b>88,567</b>	<b>98,904</b>
<b>Steel business (incl. CPP)</b>	<b>27,810</b>	<b>36,133</b>	<b>50,351</b>	<b>75,753</b>	<b>70,799</b>	<b>72,986</b>
(a) Standalone	24,392	28,877	39,731	60,037	59,150	60,333
EBITDA/t of steel	7,216	8,620	10,567	11,726	9,497	9,497
(b) Global Venture	3,419	7,255	10,621	15,716	11,650	12,653
1. Oman	4,057	6,741	14,673	13,664	14,675	14,822
EBITDA/t of HBI	2,688	4,494	9,782	9,109	9,784	
2. Wollongong (GNM)	-196	1,141	835	1,145	1,260	1,260
EBITDA/t of coal	-644					
3. Others	-442	-627	-4,887	906	-4,286	-3,429
<b>Jindal power</b>	<b>6,600</b>	<b>10,480</b>	<b>14,340</b>	<b>10,885</b>	<b>17,768</b>	<b>25,917</b>
EBITDA (INR/kwh)	0.8	1.2	1.4	1.1	1.5	1.5
Deprn. & Amortization	28,194	39,490	38,830	41,809	42,920	36,739
<b>EBIT</b>	<b>6,216</b>	<b>7,122</b>	<b>25,861</b>	<b>44,830</b>	<b>45,647</b>	<b>62,165</b>
Net Interest	32,808	34,240	38,657	41,489	40,639	32,306
Other income	2,200	411	29	165	30	0
<b>PBT before EO</b>	<b>-24,391</b>	<b>-26,706</b>	<b>-12,767</b>	<b>3,506</b>	<b>5,039</b>	<b>29,859</b>
<b>Adjusted PAT</b>	<b>-16,662</b>	<b>-19,128</b>	<b>-8,218</b>	<b>2,232</b>	<b>3,640</b>	<b>23,959</b>
<b>Cash Profit</b>	<b>4,769</b>	<b>15,336</b>	<b>28,215</b>	<b>44,040</b>	<b>46,560</b>	<b>60,698</b>

Source: MOFSL, Company

**Exhibit 2: Target price calculation (INR m)**

Y/E March	FY17	FY18	FY19E	FY20E	FY21E
<b>Steel Business</b>					
A. EBITDA	36,133	50,351	75,753	70,799	72,986
B. Target EV/EBITDA(x)	6.5	6.5	6.5	6.5	6.5
C. EV (AxB)	234,861	327,282	492,395	460,197	474,411
<b>Jindal Power (JPL)</b>					
D. PV of JPL's FCFF	238,946	195,089	205,010	211,997	215,541
<b>Consolidated</b>					
EBITDA	46,613	64,691	86,638	88,567	98,904
E. Enterprise Value (C+D)	473,808	522,371	697,405	672,193	689,952
F. Net Debt	461,427	438,319	429,729	403,823	386,717
G. CWIP	97,162	49,775	14,775	9,775	39,775
H. Discount on CWIP (%)					
Equity Value (E-F+G*(1-H%))				278,146	343,010
<b>Target price (INR/share)</b>				<b>287</b>	<b>354</b>

Source: MOFSL, Company

## Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Net Sales</b>	<b>200,040</b>	<b>201,592</b>	<b>194,673</b>	<b>216,243</b>	<b>279,727</b>	<b>392,051</b>	<b>393,005</b>	<b>418,200</b>
Change (%)	1.0	0.8	-3.4	11.1	29.4	40.2	0.2	6.4
<b>EBITDA</b>	<b>57,764</b>	<b>54,598</b>	<b>34,410</b>	<b>46,613</b>	<b>64,691</b>	<b>86,638</b>	<b>88,567</b>	<b>98,904</b>
EBITDA Margin (%)	28.9	27.1	17.7	21.6	23.1	22.1	22.5	23.6
Depreciation	18,292	27,328	28,194	39,490	38,830	41,809	42,920	36,739
<b>EBIT</b>	<b>39,472</b>	<b>27,270</b>	<b>6,216</b>	<b>7,122</b>	<b>25,861</b>	<b>44,830</b>	<b>45,647</b>	<b>62,165</b>
Interest	15,008	25,837	32,808	34,240	38,657	41,489	40,639	32,306
Other Income	656	2,256	2,200	411	29	165	30	0
Extraordinary items	0	-19,116	-2,358	-3,723	-5,874	2,555	0	0
<b>PBT</b>	<b>25,120</b>	<b>-15,428</b>	<b>-26,750</b>	<b>-30,429</b>	<b>-18,641</b>	<b>6,060</b>	<b>5,039</b>	<b>29,859</b>
Tax	6,182	-882	-6,763	-5,027	-2,398	3,922	1,919	5,977
Tax Rate (%)	24.6	5.7	25.3	16.5	12.9	64.7	38.1	20.0
Min. Int. & Assoc. Share	-140	-1,738	-980	-2,524	-2,064	-2,622	-120	325
<b>Reported PAT</b>	<b>19,104</b>	<b>-12,781</b>	<b>-19,020</b>	<b>-22,851</b>	<b>-14,091</b>	<b>4,786</b>	<b>3,640</b>	<b>23,959</b>
<b>Adjusted PAT</b>	<b>19,104</b>	<b>6,335</b>	<b>-16,662</b>	<b>-19,128</b>	<b>-8,218</b>	<b>2,232</b>	<b>3,640</b>	<b>23,959</b>
Change (%)	-45.2	-66.8	-363.0	14.8	-57.0	-127.2	63.1	558.2

Balance Sheet						(INR Million)		
Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	915	915	915	915	968	968	968	968
Reserves	225,191	209,506	180,556	299,590	302,878	307,639	310,879	334,436
<b>Net Worth</b>	<b>226,105</b>	<b>210,421</b>	<b>181,471</b>	<b>300,505</b>	<b>303,846</b>	<b>308,607</b>	<b>311,846</b>	<b>335,403</b>
Minority Interest	10,802	8,573	8,003	6,467	4,403	1,781	1,661	1,986
Debt	363,682	455,007	470,132	466,571	443,104	443,104	413,104	388,104
Deferred Tax	14,727	20,185	13,477	53,586	50,284	50,284	50,284	50,289
<b>Total Capital Employed</b>	<b>615,316</b>	<b>694,185</b>	<b>673,082</b>	<b>827,129</b>	<b>801,638</b>	<b>803,776</b>	<b>776,896</b>	<b>775,783</b>
Gross Fixed Assets	466,646	612,235	627,116	783,127	846,580	901,580	926,580	936,580
Less: Acc Depreciation	122,687	151,286	178,233	129,476	168,002	209,811	252,731	289,469
<b>Net Fixed Assets</b>	<b>343,959</b>	<b>460,949</b>	<b>448,883</b>	<b>653,651</b>	<b>678,578</b>	<b>691,769</b>	<b>673,849</b>	<b>647,111</b>
Capital WIP	178,112	90,728	118,266	97,162	49,775	14,775	9,775	39,775
Goodwill on consolidation	5,930	5,485	5,485	5,670	5,922	5,922	5,922	5,922
Investments	3,418	17,852	3,577	3,677	1,458	1,458	1,458	1,458
<b>Current Assets</b>	<b>209,301</b>	<b>180,353</b>	<b>159,182</b>	<b>145,820</b>	<b>156,572</b>	<b>195,049</b>	<b>191,194</b>	<b>189,581</b>
Inventory	48,812	48,487	32,360	35,993	49,596	65,521	65,680	69,891
Debtors	17,724	16,907	14,292	17,166	18,261	32,223	32,302	34,373
Cash & Bank	10,153	11,391	6,204	5,144	4,786	13,375	9,282	1,387
Loans & Adv, Others	132,612	103,568	106,326	87,517	83,930	83,930	83,930	83,930
<b>Curr Liabs &amp; Provns</b>	<b>125,405</b>	<b>61,181</b>	<b>62,310</b>	<b>78,850</b>	<b>90,667</b>	<b>105,197</b>	<b>105,302</b>	<b>108,063</b>
<b>Net Current Assets</b>	<b>83,896</b>	<b>119,172</b>	<b>96,872</b>	<b>66,970</b>	<b>65,905</b>	<b>89,852</b>	<b>85,892</b>	<b>81,518</b>
<b>Total Assets</b>	<b>615,316</b>	<b>694,185</b>	<b>673,082</b>	<b>827,129</b>	<b>801,638</b>	<b>803,776</b>	<b>776,896</b>	<b>775,783</b>

## Financials and Valuations

### Ratios

Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>20.9</b>	<b>6.9</b>	<b>-18.2</b>	<b>-20.9</b>	<b>-8.5</b>	<b>2.3</b>	<b>3.8</b>	<b>24.7</b>
Cash EPS	40.7	14.0	9.0	15.4	23.3	45.4	47.6	62.6
Book Value	247.1	230.0	198.4	328.4	313.9	318.8	322.2	346.5
DPS	1.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Payout (incl. Div. Tax.)	7.9	27.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Valuation(x)</b>								
P/E	8.1	24.5	-9.3	-8.1	-20.0	73.7	45.2	6.9
Price / Book Value	0.7	0.7	0.9	0.5	0.5	0.5	0.5	0.5
EV/Sales	2.5	3.0	3.2	2.9	2.2	1.5	1.4	1.3
EV/EBITDA	8.8	11.0	18.0	13.2	9.3	6.9	6.4	5.6
Dividend Yield (%)	0.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0
<b>Profitability Ratios (%)</b>								
RoE	8.8	2.9	-8.5	-7.9	-2.6	0.7	1.2	7.4
RoCE	7.3	4.5	1.2	1.0	3.2	5.6	5.8	8.1
RoIC (pre-tax)	11.4	5.5	1.1	1.1	3.6	5.9	6.0	8.4
<b>Turnover Ratios (%)</b>								
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Debtors (No. of Days)	32	31	27	29	24	30	30	30
Inventory (No. of Days)	89	88	61	61	61	61	61	61
Creditors (No. of Days)	90	70	79	38	37	40	40	40
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	1.6	2.1	2.6	1.5	1.4	1.4	1.3	1.2

### Cash Flow Statement

(INR Million)

Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Adjusted EBITDA	57,764	54,598	34,410	46,613	64,691	86,638	88,567	98,904
Non cash opr. exp (inc)	-2,456	-21,600	-4,581	-1,020	2,853	0	0	0
(Inc)/Dec in Wkg. Cap.	12,816	-18,154	11,762	7,190	-9,267	-15,357	-133	-3,520
Tax Paid	-8,337	-3,393	-170	450	-553	-3,922	-1,919	-5,972
Other operating activities	0	0	0	15,840	14,101	0	0	0
<b>CF from Op. Activity</b>	<b>59,786</b>	<b>11,451</b>	<b>41,422</b>	<b>69,072</b>	<b>71,825</b>	<b>67,359</b>	<b>86,515</b>	<b>89,411</b>
(Inc)/Dec in FA & CWIP	-141,525	-50,964	-39,500	-24,975	-25,767	-20,000	-20,000	-40,000
<b>Free cash flows</b>	<b>-81,739</b>	<b>-39,513</b>	<b>1,922</b>	<b>44,097</b>	<b>46,057</b>	<b>47,359</b>	<b>66,515</b>	<b>49,411</b>
(Pur)/Sale of Invt	4,898	-13,430	15,904	5,164	12,299	0	0	0
Others	-3,809	-970	3,706	1,331	-1,376	2,720	30	0
<b>CF from Inv. Activity</b>	<b>-140,437</b>	<b>-65,365</b>	<b>-19,889</b>	<b>-18,481</b>	<b>-14,845</b>	<b>-17,280</b>	<b>-19,970</b>	<b>-40,000</b>
Inc/(Dec) in Net Worth	-3,986	5	0	0	13,883	0	0	0
Inc / (Dec) in Debt	115,838	90,704	9,230	-10,256	-24,391	0	-30,000	-25,000
Interest Paid	-21,775	-34,381	-35,941	-41,396	-46,845	-41,489	-40,639	-32,306
Divd Paid (incl Tax) & Others	-1,276	-1,177	-8	0	15	0	0	0
<b>CF from Fin. Activity</b>	<b>88,802</b>	<b>55,151</b>	<b>-26,719</b>	<b>-51,651</b>	<b>-57,338</b>	<b>-41,489</b>	<b>-70,639</b>	<b>-57,306</b>
<b>Inc/(Dec) in Cash</b>	<b>8,152</b>	<b>1,238</b>	<b>-5,187</b>	<b>-1,060</b>	<b>-358</b>	<b>8,589</b>	<b>-4,094</b>	<b>-7,894</b>
Add: Opening Balance	2,001	10,153	11,391	6,204	5,144	4,786	13,375	9,282
<b>Closing Balance</b>	<b>10,153</b>	<b>11,391</b>	<b>6,204</b>	<b>5,144</b>	<b>4,786</b>	<b>13,375</b>	<b>9,282</b>	<b>1,387</b>

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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