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Q4FY20 result review

Metals

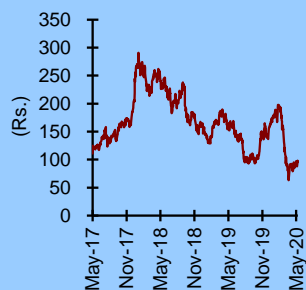
Target price: Rs213

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	60.4	60.4	60.5
Institutional investors	26.0	27.0	25.3
MFs and others	7.1	8.1	7.2
FIs/Insurance	3.5	4.4	4.6
FII	15.4	14.5	13.5
Others	13.6	12.6	14.2

Source: BSE

Price chart



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INDIA

Jindal Steel & Power

BUY

Maintained

Rs109

In-line quarter; deleveraging continues

JSPL's Q4FY20 operational print was in-line with consolidated EBITDA of Rs22.2bn (I-Sec: Rs21.9bn). While Jindal Power's (JPL) EBITDA surprised on the back of higher-than-expected production, standalone steel business witnessed volume miss on account of Angul blast furnace's closure. Steel realisation and EBITDA/te performance was higher than expected with ~Rs3,200/te QoQ increase. Net debt continues to decrease with cashflow suggesting Rs11.8/40.37bn of deleveraging in H2/FY20. We maintain BUY with an unchanged target price of Rs213/share.

- **EBITDA performance in-line; guidance beats expectations.** The volume miss in standalone operations due to closure of Angul BF might have actually helped cost performance apart from benefits flowing in from the usage of Sarada iron ore inventory fines. Usage of iron ore inventory from Sarada can be one of the many possible explanations of a sharp drop in raw material costs. What surprises us is the unusually strong production guidance of 7-7.5mnte in FY21E, implying a growth of ~15% at mid-point. While the guidance would have included pig iron, we continue to work with our saleable steel sales assumption of 5.3mnte for FY21E. Further, management also highlighted ~Rs 9,000/te of margin guidance for Q1FY21E and a broad confidence in maintaining the same print over the rest of the year. We continue to work with Rs7,372/te of standalone steel EBITDA over FY21E.
- **JPL registers an impressive cash profit of Rs2.7/9.6bn for Q4/FY20.** Production and PLF for Q4FY20 surprised due to an unusually resilient March '20. PPA of 850MW continues to see a decent offtake from Kerala and Tamil Nadu, while the management continues to sell 100-150MW daily to realise cashflows from a relatively cheap and abundant availability of coal. Around Rs3.3bn worth of debt has been repaid to Franklin Templeton and the current debt stands at Rs65bn.
- **International operations surprise with beat at Oman and positive EBITDA contribution from Mozambique.** Oman EBITDA/te surprised at US\$120/te. Mozambique witnessed ~44% YoY increase in ROM production; 14% YoY in Q4FY20 leading to US\$2mn of EBITDA in the quarter. Management expects permission to resume mining in Russell Vale operations in Australia which should help generate positive EBITDA from Australia as well.
- **Refinancing of international debt needs to be tracked; given the current liquidity of the global junk bond market, the same shouldn't be a problem.** JSPL faces Rs61bn of maturity in FY21 with Rs33bn in overseas operations and Rs28bn in domestic operations. Around Rs28bn of domestic maturity (Rs16bn in JSPL + Rs12bn in JPL) should be easily refinanced and partly paid back as well. Nearly Rs33bn of overseas maturity, especially Rs27bn of maturity ex-Oman needs close tracking and increases FY21E solvency risks – nothing unmanageable in our view.
- **Maintain BUY with an unchanged target of Rs213/share.** We continue to value JSPL at 0.62x FY22E P/B. We don't see any solvency risk for the company while we expect FY21E net debt to EBITDA to reach 7.3x, before normalising back to 3.8x in FY22E. Even with our 'conservative' earnings projections, we see possibility of ~Rs10bn of deleveraging in FY21E and Rs40-50bn of deleveraging over FY21-22E.

Market Cap	Rs111bn/US\$1.5bn	Year to March	FY18	FY19	FY20E	FY21E
Reuters/Bloomberg	JNSP.BO/JSPL IN	Revenue (Rsmn)	395,195	369,175	343,154	466,634
Shares Outstanding (mn)	1,020.0	Net Income (Rsmn)	(1,669)	1	(16,202)	13,640
52-week Range (Rs)	198/63	EPS (Rs)	(1.6)	0.0	(15.9)	13.4
Free Float (%)	39.5	% ChgYoY	NM	NM	NM	NM
FII (%)	13.5	P/E (x)	NM	NM	NM	8.2
Daily Volume (US\$'000)	42,336	CEPS (Rs)	56.9	41.4	25.9	58.3
Absolute Return 3m (%)	(35.8)	EV/E (x)	6.3	6.5	9.4	4.9
Absolute Return 12m (%)	(32.1)	Dividend Yield	-	-	-	-
Sensex Return 3m (%)	(23.1)	RoCE (%)	3.6	5.1	1.9	7.6
Sensex Return 12m (%)	(21.5)	RoE (%)	(3.0)	(0.9)	(5.0)	5.3

Please refer to important disclosures at the end of this report

Table 1: Q4FY20 review (standalone)

(Rs mn)	Q4FY20	Q4FY19	% chg YoY	Q3FY20	% chg QoQ	FY20	FY19	% chg YoY
Net sales	59,303	72,854	(18.6)	66,613	(11.0)	262,283	277,160	(5.4)
Other operating income	-	492		-		-		
Total sales	59,303	74,024	(19.9)	66,403	(10.7)	262,283	277,160	(5.4)
Change in stock	(3,336)	974	NA	3,601		(1,981)	(1,097)	
Consumption of raw materials	20,850	29,913	(30.3)	25,639	(18.7)	106,877	119,027	(10.2)
Purchase of traded goods	1,335	4,272	(68.7)	2,126	(37.2)	8,825	11,746	(24.9)
Employee costs	1,936	1,467	32.0	1,609	20.3	6,787	6,198	9.5
Other expenditure	23,048	22,321	3.3	15,140	52.2	84,956	83,090	2.2
Total costs	43,681	59,624	(26.7)	52,882	(17.4)	204,509	216,990	(5.8)
EBITDA	15,622	14,399	8.5	13,521	15.5	57,773	60,170	(4.0)
Margin (%)	26.3	19.5		20.4		22.0	21.7	
Depreciation	5,676	5,757	(1.4)	5,702	(0.5)	22,871	23070.6	(0.9)
EBIT	9,947	8,643		7,819	27.2	34,902	37,099	
Interest expense	6,225	9,795	(36.4)	6,343	(1.9)	26,106	28957.6	(9.8)
Other income	-	-		-		-	144.5	
Extraordinary / Forex (gain)/Loss	-	16,538		-		-	(13,984)	
PBT (recurring)	3,721	(1,153)		1,476		8,796	8,286	
PBT (reported)	3,721	(17,691)		1,476		8,796	(5,698)	
Tax (recurring)	904	(6,149)		507		2,620	2,486	
Tax (reported)	904	(6,149)		507		2,620	(3,069)	
PAT (recurring)	2,817	4,996		969		6,177	11,355	
PAT (reported)	2,817	(11,542)		969		6,177	(2,629)	

Source: Company data, I-Sec research

Table 2: Q4FY20 review (consolidated)

(Rs mn)	Q4FY20	Q4FY19	% chg YoY	Q3FY20	% chg QoQ
Net sales	88,107	100,264	(12.1)	93,208	(5.5)
Other operating income	-	648		-	
Total sales	88,107	101,590	(13.3)	92,998	(5.3)
Change in stock	(5,357)	1,757	NA	2,535	
Consumption of raw materials	32,543	36,802	(11.6)	32,952	(1.2)
Purchase of traded goods	313	4,891	(93.6)	6,321	(95.0)
Employee costs	2,935	2,787	5.3	2,743	7.0
Other expenditure	35,628	21,076	69.0	23,337	52.7
Total costs	65,910	83,142	(20.7)	74,803	(11.9)
EBITDA	22,197	18,447	20.3	18,195	22.0
Margin (%)	25.2	18.2		19.6	
Depreciation	7,568	23,733	(68.1)	10,179	(25.7)
EBIT	14,630	(5,286)		8,016	
Interest expense	10,078	11,631	(13.3)	10,024	0.5
Other income	246	-		0	
Extraordinary / Forex (gain)/Loss	1,094	17,339		-	
PBT (recurring)	4,797	(16,917)		(2,008)	NA
PBT (reported)	3,703	(34,255)		(2,008)	NA
Tax (recurring)	647	-		178	
Tax (reported)	647	(7,122)		178	
PAT (recurring)	4,150	(16,917)		(2,186)	NA
PAT (reported)	3,056	(27,133)		(2,186)	NA
Minority interest	1,006	5,676		(57)	
Share of associates	-	-		-	
PAT after minority (recurring)	5,156	(11,241)		(2,243)	
PAT after minority (reported)	4,062	(21,458)		(2,243)	

Source: Company data, I-Sec research

For YoY comparison of Consolidated financials refer to summary financials

Table 3: Q4FY20 key operating parameters

	Q4FY20	Q4FY19	% Chg YoY	Q3FY20	% Chg QoQ
Standalone					
Sales (mn te)*	1.34	1.45	(7.6)	1.61	(16.8)
EBITDA/te (Rs/te)	11,658	9,931	17.4	8,398	38.8
JPL					
Production (mn units)	2,430	2,609	(6.9)	1,900	27.9
Sales	9,130	9,990	(8.6)	7,840	16.5
EBITDA	3,330	2,670	24.7	2,570	29.6
PAT	(1,340)	130	NM	(830)	NM
Oman (Shadeed)					
Sales (te)	530,000	460,000	15.2	570,000	(7.0)
EBITDA/te (US\$/te)	120	76	58.2	58	107.9

Source: Company data, I-Sec research * Ex pig iron

Conference call takeaways

- **Lower volume in Q4FY20** is on account of a BF shutdown in Angul (~40 days).
- **Volume guidance.** Management has guided for 7-7.5mn te production in FY21E which is 15% YoY higher. Consolidated production guidance is at 8.7-9.3mn te, implying a 10% YoY volume growth at mid-point. Margin guidance has been pegged at Rs9,000/te ex the benefits of Sarada mines inventory. **This has been an extremely impressive guidance keeping in mind the external environment.**
- **Exports significantly ramped up.** With 248,000te of exports, Apr,'20 witnessed highest ever exports from JSPL. Management expects to touch 400,000te exports during the Covid-19 outbreak period. Major products/countries exported to include rails to France, plates to France, Italy, Germany, Middle East, specialty product for power grid companies in Middle East etc.
- **Jindal Power debt.** JPL has debt of Rs65bn. Nearly Rs3.3bn has been repaid to Franklin Templeton. Change in law receipts from Tangenco and interest from JSPL helped make the repayment without any increase in debt. Tamil Nadu and Kerala have not cut any scheduled offtake from JPL.
- **ROM production in Mozambique has gone up 44% YoY** reaching 2.5mn te in FY20. South Africa has also seen an increase in production. Focus on international entities has started yielding results. JSPL is close to getting the approval for the start of Russell Vale mine. Management expects to see Australia become EBITDA positive soon.
- **Lower consolidated depreciation** is due to a writeback in Australia to the extent of Rs2.93bn, post a formal valuation exercise. Last year the impairment of Rs12bn was taken on management estimate. The same has been reversed by Rs6bn in Q1FY20 and ~Rs3bn in Q4FY20.
- **Net debt repayment.** Net of forex adjustment, cash repayment in last quarter was Rs12.32bn. Management clarified Rs26.59bn of term debt which was sitting in current liabilities on delay in Australian debt restructuring has been shown under long-term borrowings as of reported balance sheet date.
- **Debt maturity and utilisation of moratorium.** Moratorium extended by the RBI has been utilised and Rs13.52bn of JSPL debt and Rs7bn of JPL debt repayment have been shifted to FY22. This implies ~Rs20bn of principal repayment in Indian

operations has been deferred. Still JSPL has ~Rs61bn of maturity in FY21. Around Rs31bn in overseas operations consisting Rs6bn in Oman and the rest in Mauritius + Australia combined – most maturing at the end of FY21. Nearly Rs28bn is the maturity on Indian loan. Around Rs16bn is maturity in JSPL and Rs12bn is the maturity in JPL.

- **On higher capex shown in cashflows and future capex guidance.** Management continues to guide for Rs6-8bn p.a. capex. Nearly Rs16.6bn worth of capex as represented in cashflow (for FY20) is mainly on account of i) Rs6.6bn of IndAS-116 assets created, ii) Rs2.9bn of reversal of impairment previously taken (FY19-end) in Australian assets which increases gross block and iii) additional Rs2-2.5bn of optimisation capex undertaken in Oman.
- **Current status of operations in JPL.** Management highlighted it is operating 2X600MW and 1x250MW in JPL currently, which is better than what was operated in Q4FY20. While spot sales (IEX) realisation has dropped to Rs2.2/kwhr, the cheap and abundant availability of coal has allowed JPL to convert coal into cash. Hence, it is selling 100-150MW into IEX daily.

Valuation and risks

We maintain BUY on Jindal Steel and Power with a target price of Rs213/share (**implied P/B of 0.62x on FY22E P/B and implied normal cycle RoE of 7.5%**). We don't see any solvency issue for JSPL given the current scenario of a quarter long disruption.

Risks: Sooner or later the viability of thermal power assets will be in question. We feel our FY22E EBITDA from JPL assets (Rs23bn) can be at risk. One of the reasons for ascribing 0.62x FY22E book is the possible unviability of not only foreign assets but also the earnings potential of JPL assets.

Even if JPL reports half of what we are estimating i.e Rs11-12bn of EBITDA, our estimated FY22E book changes to Rs328/share from Rs341/share currently. Our target price changes to Rs203/share from Rs213/share currently.

Financial summary

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	395,195	369,175	343,154	466,634
Operating Expenses	309,666	290,637	288,967	369,377
EBITDA	84,056	78,538	54,187	97,257
% margins	21.3	21.3	15.8	20.8
Depreciation	54,804	38,672	40,408	40,788
Gross Interest	42,642	41,493	35,353	30,542
Other Income	157	262	783	819
Recurring PBT	(13,233)	(1,365)	(20,791)	26,747
Add: Extraordinary	(14,784)	(1,094)	-	-
Less: Taxes	(3,902)	1,539	(5,255)	10,165
Net Income (Reported)	(16,453)	(1,093)	(16,202)	13,640
Recurring Net Income	(1,669)	1	(16,202)	13,640

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	157,843	170,572	156,719	179,644
of which cash & cash eqv.	4,234	9,143	4,777	5,607
Total Current Liabilities & Provisions	97,266	116,285	115,592	126,607
Net Current Assets	60,577	54,287	58,218	74,462
Investments	1,498	1,806	1,806	1,806
Strategic/Group	1,498	1,806	1,806	1,806
Other Marketable	-	-	-	-
Net Fixed Assets	724,504	718,973	689,107	662,536
Capital Work-in-Progress	40,272	31,255	31,255	31,255
Goodwill	6,164	6,098	6,098	6,098
Total Assets	792,743	781,164	755,229	744,902
Liabilities				
Borrowings	423,514	411,332	400,932	374,024
Deferred Tax Liability	53,643	56,226	56,226	56,226
Minority Interest	(5,261)	(7,764)	(7,099)	(4,158)
Equity Share Capital	1,016	1,020	1,020	1,020
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus	319,831	320,351	304,150	317,790
Net Worth	320,847	321,371	305,170	318,810
Total Liabilities	792,743	781,164	755,229	744,902

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	40,067	40,084	24,089	56,550
Working Capital Changes	4,503	15,127	8,794	(11,079)
Capital Commitments	(14,333)	(16,646)	(10,542)	(14,217)
Free Cashflow	30,237	38,564	22,341	31,254
Cashflow from Investing Activities	6,129	1,892	783	819
Issue of Share Capital	-	5,129	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(36,897)	(40,676)	(10,399)	(26,908)
Dividend paid	-	-	-	-
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank balance	(549)	4,891	(4,366)	830

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic Recurring)	(1.6)	0.0	(15.9)	13.4
Diluted Recurring EPS	(1.6)	0.0	(15.9)	13.4
Recurring Cash EPS	56.9	41.4	25.9	58.3
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	343	344	327	341
Growth Ratios (%)				
Operating Income	41.3	(6.6)	(1.6)	23.0
EBITDA	29.9	(6.6)	(31.0)	79.5
Recurring Net Income	NM	NM	NM	NM
Diluted Recurring EPS	NM	NM	NM	NM
Diluted Recurring CEPS	73.6	(27.2)	(37.4)	124.8
Valuation Ratios (x)				
P/E	NM	NM	NM	8.2
P/CEPS	1.9	2.6	4.2	1.9
P/BV	0.3	0.3	0.3	0.3
EV / EBITDA	6.3	6.5	9.4	4.9
EV / Operating Income	1.3	1.4	1.4	1.1
EV / Operating CF	11.9	9.6	15.6	11.2
Operating Ratios (%)				
Raw Material/Sales	12.3	13.0	13.2	10.8
Other Income / PBT	(1.2)	(19.2)	(3.8)	3.1
Effective Tax Rate	13.9	(62.6)	25.3	38.0
NWC / Total Assets	7.1	5.8	7.1	9.2
Inventory Turnover (days)	188.7	248.0	214.5	197.3
Receivables (days)	16.5	24.0	31.6	19.6
Payables (days)	121.9	99.6	134.1	137.0
D/E Ratio (x)	1.5	1.5	1.5	1.3
Profitability Ratios (%)				
Rec. Net Income Margins	(2.4)	(0.8)	(4.3)	3.7
RoCE	3.6	5.1	1.9	7.6
RoNW	(3.0)	(0.9)	(5.0)	5.3
Dividend Payout Ratio	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	21.3	21.3	14.9	21.8

Source: Company data, I-Sec research

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