

Jindal Steel & Power

BSE SENSEX
31,454

S&P CNX
9,206

CMP: INR86

TP: INR150 (+75%)

Buy



Stock Info

Bloomberg	JSP IN
Equity Shares (m)	1,016
M.Cap.(INRb)/(USDb)	87.7 / 1.2
52-Week Range (INR)	202 / 62
1, 6, 12 Rel. Per (%)	22/-14/-33
12M Avg Val (INR M)	2863
Free float (%)	39.6

Financials Snapshot (INR b)

Y/E MARCH	2020E	2021E	2022E
Sales	371.1	351.0	411.3
EBITDA	76.0	92.2	87.5
Adj. PAT	-6.7	8.4	9.0
EBITDA Margin (%)	20.5	26.3	21.3
Cons. Adj. EPS (INR)	-6.5	8.3	8.8
EPS Gr. (%)	-299.4	-226.8	6.3
BV/Sh. (INR)	317.6	325.9	334.8

Ratios

Net D:E	1.1	0.9	0.8
RoE (%)	-2.0	2.6	2.7
RoCE (%)	4.6	7.1	6.7
Payout (%)	0.0	0.0	0.0

Valuations

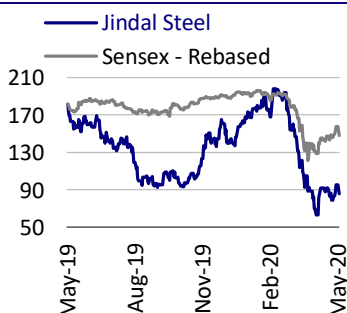
P/E (x)	-13.1	10.4	9.8
P/BV (x)	0.3	0.3	0.3
EV/EBITDA(x)	5.7	4.2	4.1
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	60.4	60.4	58.7
DII	13.0	11.1	9.3
FII	14.4	15.3	17.8
Others	12.2	13.3	14.3

FII Includes depository receipts

Stock Performance (1-year)



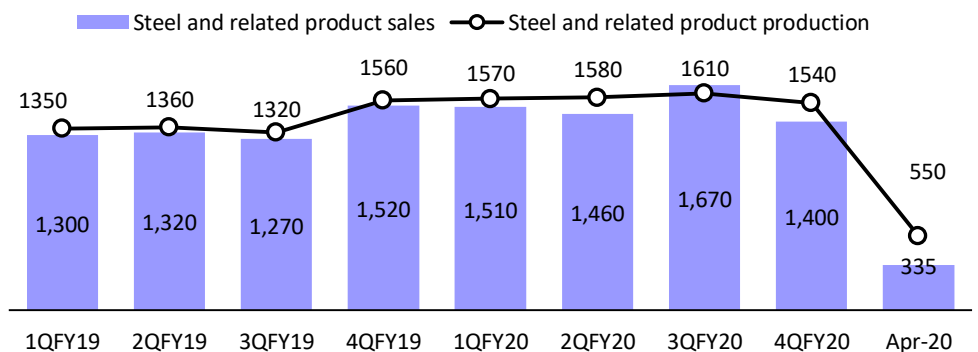
India steel production up 5% YoY in Apr'20

Highlights from Jindal Steel and Power's (JSPL) Apr'20 operational update:

India steel operations

- JSPL produced 550kt steel and related products during Apr'20 (up 5% YoY). This was on the back of record high production from the Angul Blast Furnace, which produced 298kt hot metal, clocking 10kt daily. Other related products include granulated pig iron and other intermediary products.
- Though domestic demand remained dry during the month, production was boosted by large export orders, primarily of billets from China due to the shortage of intermediates there.
- Apr'20 sales stood at 335kt, of which 248kt (74% of total) were exports.
- Exports were up 109% MoM while implied domestic sales were down ~80% MoM.
- The balance production in Apr'20 is at the ports, waiting to be exported out; sales would be booked in May'20.
- We note that while these export volumes would earn lower EBITDA margins (likely ~INR5,000/t), it is still positive as this should help recover fixed costs if plants earn positive cash flows, which is critical in this environment.

Exhibit 1: India Steel and related products – production and sales



Source: MOFSL

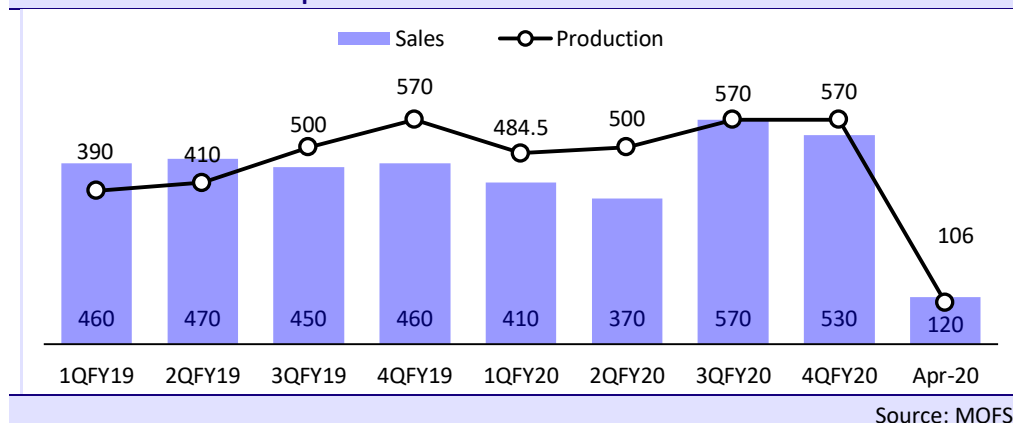
Oman operations

- JSPL's Oman operations reported production of 106kt, down ~40% over the normal monthly run-rate. However, the decline in sales volumes was lower at 33% as the company sold ~120kt of steel during the month.

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Exhibit 2: Oman sales and production volumes**Valuation and view – steel business available virtually free**

JSPL's ability to export volumes during Apr'20 provides confidence to our expectation of ~2% decline in FY21E volumes. Restructuring of debt in Australian operations during 4QFY20 should help JSPL meet its debt obligations comfortably in Indian and other overseas operations. We expect JSPL to reduce its net debt by INR77b over FY20E-22E to INR272b. This would be achieved through free cash flow generation on the back of higher earnings and lower capex.

At CMP, the stock trades at 4.1x FY22E EV/EBITDA. We value JSPL stock using SoTP methodology and value the steel business at 4.0x. The power business is valued using DCF method. We arrive at a target price of INR150/share. Our valuation of the power business translates to an EV of INR40m/MWH capacity, which is at ~40% discount to the replacement value. Equity value of the power business (JPL's estimated net debt at INR60b FY22E) works out to INR76/share. Hence, the steel business of JSPL is available virtually free at the current stock price. Reiterate **Buy**.

Exhibit 3: Target price calculation

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Steel Business								
A. EBITDA					72,496	64,410	78,936	71,611
B. Target EV/EBITDA(x)								4.0
C. EV (AxB)								2,86,445
Jindal Power (JPL)								
D. PV of JPL's FCF								1,37,449
Consolidated								
EBITDA	54,598	34,410	46,613	64,691	84,056	75,972	92,187	87,482
E. Enterprise Value (C+D)								4,23,894
F. Net Debt	4,43,617	4,63,928	4,61,427	4,38,319	4,04,306	3,48,708	3,00,736	2,71,629
Equity Value (E-F+G*(1-H%))								1,52,265
Target price (INR/share)								150

Source: MOFSL

Financials and Valuations

Income Statement (Consolidated)								(INR Million)
Y/E March	2015	2016	2017	2018	2019	2020E	2021	2022
Net sales	2,01,592	1,83,709	2,10,194	2,76,244	3,93,721	3,71,074	3,51,021	4,11,281
Change (%)	4.5	-8.9	14.4	31.4	42.5	-5.8	-5.4	17.2
Total Expenses	1,46,994	1,49,299	1,63,581	2,11,553	3,09,666	2,95,103	2,58,834	3,23,799
EBITDA	54,598	34,410	46,613	64,691	84,056	75,972	92,187	87,482
% of Net Sales	27.1	18.7	22.2	23.4	21.3	20.5	26.3	21.3
Deprn. & Amortization	27,328	28,194	39,490	38,830	41,938	41,284	42,131	42,364
EBIT	27,270	6,216	7,122	25,861	42,118	34,688	50,056	45,118
Net Interest	25,837	32,808	34,240	38,657	42,642	41,300	37,486	31,577
Other income	2,256	2,200	411	29	157	25		
PBT before EO	3,689	-24,391	-26,706	-12,767	-367	-6,588	12,570	13,541
EO income	-19,116	-2,358	-3,723	-5,874	-27,650	0	0	0
PBT after EO	-15,428	-26,750	-30,429	-18,641	-28,017	-6,588	12,570	13,541
Tax	-882	-6,763	-5,027	-2,398	-3,902	1,993	4,400	4,739
Rate (%)	5.7	25.3	16.5	12.9	13.9	-30.3	35.0	35.0
Reported PAT	-14,546	-19,987	-25,402	-16,243	-24,115	-8,580	8,171	8,801
Minority interests	-1,738	-980	-2,524	-2,064	-7,644	-1,929	-261	-162
Preference dividend		0	0	0	0	0	0	0
Share of Associates	26	-14	27	87	0	0	0	0
Adjusted PAT	6,335	-16,662	-19,128	-8,218	3,178	-6,651	8,432	8,963
Change (%)	-66.8	-363.0	14.8	-57.0	-138.7	-309.3	-226.8	6.3

Balance Sheet (Consolidated)								(INR Million)
Y/E March	2015	2016	2017	2018	2019	2020E	2021	2022
Share Capital	915	915	915	968	968	1,016	1,016	1,016
Reserves	2,09,506	1,80,556	2,99,590	3,02,878	3,23,309	3,21,673	3,30,104	3,39,068
Net Worth	2,10,421	1,81,471	3,00,505	3,03,846	3,24,276	3,22,689	3,31,120	3,40,084
Minority Interest	8,573	8,003	6,467	4,403	-3,011	-4,940	-5,201	-5,363
Total Loans	4,55,007	4,70,132	4,66,571	4,43,104	4,08,590	3,58,590	3,03,590	2,83,590
Deferred Tax Liability	20,185	13,477	53,586	50,284	53,643	53,643	53,643	53,643
Capital Employed	6,94,185	6,73,082	8,27,129	8,01,638	7,83,498	7,29,981	6,83,152	6,71,953
Gross Block	6,12,235	6,27,116	7,83,127	8,46,580	9,00,003	9,25,003	9,35,003	9,45,003
Less: Accum. Deprn.	1,51,286	1,78,233	1,29,476	1,68,002	2,09,940	2,51,223	2,93,354	3,35,718
Net Fixed Assets	4,60,949	4,48,883	6,53,651	6,78,578	6,90,063	6,73,779	6,41,649	6,09,284
Capital WIP	90,728	1,18,266	97,162	49,775	40,272	22,272	19,272	17,772
Goodwill & Revaluation	5,485	5,485	5,670	5,922	6,164	6,164	6,164	6,164
Investments	17,852	3,577	3,677	1,458	1,452	1,452	1,452	1,452
Curr. Assets	1,80,353	1,59,182	1,45,820	1,56,572	1,57,902	1,36,528	1,22,906	1,51,350
Inventory	48,487	32,360	35,993	49,596	65,095	57,949	52,894	67,608
Account Receivables	16,907	14,292	17,166	18,261	30,292	28,466	26,928	31,550
Cash and Bank Balance	11,391	6,204	5,144	4,786	4,284	9,882	2,853	11,961
Loans & advances and others	1,03,568	1,06,326	87,517	83,930	58,231	40,231	40,231	40,231
Curr. Liability & Prov.	61,181	62,310	78,850	90,667	1,12,355	1,10,214	1,08,291	1,14,069
Account Payables	38,391	42,186	22,221	28,434	38,724	35,582	33,660	39,438
Provisions & Others	22,790	20,124	56,629	62,233	73,631	74,631	74,631	74,631
Net Current Assets	1,19,172	96,872	66,970	65,905	45,548	26,314	14,615	37,281
Appl. of Funds	6,94,185	6,73,082	8,27,129	8,01,638	7,83,498	7,29,981	6,83,152	6,71,953

Financials and Valuations

Ratios (Consolidated)								
Y/E March	2015	2016	2017	2018	2019	2020E	2021	2022
Basic (INR)								
EPS	6.9	(18.2)	(20.9)	(8.5)	3.3	(6.5)	8.3	8.8
Cash EPS	14.0	9.0	15.4	23.3	18.4	32.2	49.5	50.4
BV/Share	230.0	198.4	328.4	313.9	335.0	317.6	325.9	334.8
DPS	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	27.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	12.4	(4.7)	(4.1)	(10.1)	26.2	(13.1)	10.4	9.8
Cash P/E	6.2	9.6	5.6	3.7	4.7	2.7	1.7	1.7
P/BV	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
EV/Sales	2.6	3.0	2.6	1.9	1.2	1.2	1.1	0.9
EV/EBITDA	9.6	15.8	11.6	8.1	5.8	5.7	4.2	4.1
Dividend Yield (%)	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Return Ratios (%)								
EBITDA Margins (%)	27.1	18.7	22.2	23.4	21.3	20.5	26.3	21.3
Net Profit Margins (%)	3.1	(9.1)	(9.1)	(3.0)	0.8	(1.8)	2.4	2.2
RoE	2.9	(8.5)	(7.9)	(2.6)	1.0	(2.0)	2.6	2.7
RoCE (pre-tax)	4.5	1.2	1.0	3.2	5.3	4.6	7.1	6.7
RoIC (pre-tax)	5.5	1.1	1.1	3.6	5.7	4.9	7.5	7.0
Working Capital Ratios								
Fixed Asset Turnover (x)	0.4	0.3	0.3	0.4	0.5	0.5	0.5	0.6
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.5	0.4	0.4	0.4
Inventory (Days)	87.8	64.3	62.5	65.5	60.3	57.0	55.0	60.0
Debtor (Days)	30.6	28.4	29.8	24.1	28.1	28.0	28.0	28.0
Payable (Days)	69.5	83.8	38.6	37.6	35.9	35.0	35.0	35.0
Work.Cap.Turnover (Days)	53.5	49.4	29.4	22.1	10.5	20.0	20.0	20.0
Leverage Ratio (x)								
Current Ratio	2.9	2.6	1.8	1.7	1.4	1.2	1.1	1.3
Interest Cover Ratio	1.1	0.2	0.2	0.7	1.0	0.8	1.3	1.4
Debt/Equity	2.1	2.6	1.5	1.4	1.2	1.1	0.9	0.8

Cash Flow Statement (Consolidated)						(INR Million)		
Y/E March	2015	2016	2017	2018	2019	2020E	2021	2022
EBITDA	54,598	34,410	46,613	64,691	84,056	75,972	92,187	87,482
Non cash exp. (income)	-21,600	-4,581	-1,020	2,853	1,262			
(Inc)/Dec in Wkg. Cap.	-18,154	11,762	7,190	-9,267	-17,346	24,831	4,670	-13,559
Tax Paid	-3,393	-170	450	-553	296	-1,993	-4,400	-4,739
others			15,840	14,101	22,001			
CF from Op. Activity	11,451	41,422	69,072	71,825	90,268	98,810	92,458	69,185
(Inc)/Dec in FA + CWIP	-50,964	-39,500	-24,975	-25,767	-14,333	-7,000	-7,000	-8,500
(Pur)/Sale of Investments	-13,430	15,904	5,164	12,299	2,436			
Acquisition in subsidiaries	367	1,052				0	0	0
Loans and advances	0	-1,337	-934	-2,376	3,044			
Int. & Dividend Income	1,003	2,292	754	1,533	532	25	0	0
Other investing activities	-2,341	1,699	1,511	-533	-533			
CF from Inv. Activity	-65,365	-19,889	-18,481	-14,845	-8,853	-6,975	-7,000	-8,500
Equity raised/(repaid)	5	0	0	13,883	0			
Debt raised/(repaid)	90,704	9,230	-10,256	-24,391	-36,897	-50,000	-55,000	-20,000
Dividend (incl. tax)	-1,448	-8	0	15	-18	0	0	0
Interest paid	-34,381	-35,941	-41,396	-46,845	-45,699	-41,300	-37,486	-31,577
Other financing	271	0						
CF from Fin. Activity	55,151	-26,719	-51,651	-57,338	-82,614	-91,300	-92,486	-51,577
(Inc)/Dec in Cash	1,238	-5,187	-1,060	-358	-1,199	535	-7,028	9,107
Add: opening Balance	10,153	11,391	6,204	5,144	4,786	4,284	9,882	2,853
Closing Balance	11,391	6,204	5,144	4,786	3,587	4,819	2,853	11,961

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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