

November 2, 2020

Q2FY21 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	260		260	
Sales (Rs. m)	4,18,462	4,28,169	4,18,462	4,28,169
% Chng.	-	-	-	-
EBITDA (Rs. m)	93,758	1,00,416	93,758	1,00,416
% Chng.	-	-	-	-
EPS (Rs.)	13.7	20.9	14.0	21.3
% Chng.	(1.9)	(1.8)	-	-

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	3,70,129	3,94,387	4,18,462	4,28,169
EBITDA (Rs. m)	78,539	1,04,468	93,758	1,00,416
Margin (%)	21.2	26.5	22.4	23.5
PAT (Rs. m)	(1,486)	25,803	13,964	21,365
EPS (Rs.)	(1.5)	25.3	13.7	20.9
Gr. (%)	67.6	NA	(45.9)	53.0
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(0.5)	7.8	4.0	5.8
RoCE (%)	5.7	9.4	8.2	9.8
EV/Sales (x)	1.5	1.3	1.1	0.9
EV/EBITDA (x)	7.0	4.9	4.9	4.0
PE (x)	(131.0)	7.5	13.9	9.1
P/BV (x)	0.6	0.6	0.5	0.5

Key Data

JNSP.BO | JSP IN

52-W High / Low	Rs.239 / Rs.62
Sensex / Nifty	39,758 / 11,669
Market Cap	Rs.195bn/ \$ 2,615m
Shares Outstanding	1,020m
3M Avg. Daily Value	Rs.5264.88m

Shareholding Pattern (%)

Promoter's	60.47
Foreign	12.24
Domestic Institution	13.25
Public & Others	14.04
Promoter Pledge (Rs bn)	58.91

Stock Performance (%)

	1M	6M	12M
Absolute	0.3	100.8	54.7
Relative	(2.4)	70.3	56.3

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Debt reduction to gather pace in H2

Quick Pointers:

- Domestic steel margins increased 15% QoQ at ~Rs12,600/t
- Steady cash flows and divestment of Shadeed operations drive 17% QoQ fall in Net debt/EBITDA at 3.5x

Jindal steel & Power's (JSP) Q2FY21 EBITDA came in line with estimates at Rs27.0b. However, company missed our expectation on organic debt reduction due to fall in customer advances and lower trade payables. We maintain our estimates on debt reduction for FY21e and FY22e on the back of steady cash flows and lower base of customer advances/trade payables.

JSP reduced net debt by 26%/Rs118bn over last four and half years at Rs342.7bn (not adjusted for Oman divestment) as on Q2FY21. Trajectory would further strengthen with reduction of Rs35-40bn/year on the back of higher capacity utilisation in both steel and Jindal Power (JPL), lean capex and lower iron ore cost with the liquidation of inventory lying at Sarda mines. Divestment of Oman based Shadeed steel operations strengthened B/S with reduction in debt by ~15%/Rs54bn and Net debt/EBITDA falling by 17% QoQ to 3.5x. Driven by continuous reduction in debt, attractive valuations and steady earnings outlook, we reiterate BUY with TP of Rs260.

- Steel operations extended the expansion in margins:** Domestic steel volumes rose 24% QoQ (+30% YoY) at 1.9mnt (PLe:1.9mnt). Blended realisations increased 3% or Rs1,200 QoQ at Rs40,690, below our estimate of Rs42,000. Lower realisations were more than offset by lower overheads. Cost fell 2% QoQ/21% YoY at Rs28,100 against our estimate of Rs29,920. Lower costs resulted in beat in EBITDA/t by 4% at Rs12,585 (PLe:12,070), +15% QoQ/↑49% YoY. Jindal Power posted EBITDA of Rs3.0bn (down 18% QoQ/flat YoY), below our estimate of Rs4bn. The miss was due to provisioning of Rs1.1bn for surcharge over dues. Led by strong growth in steel operations, consolidated EBITDA grew 30% QoQ/78% YoY at Rs27.0bn (PLe:Rs270bn). Aided by lower interest cost, Company posted Adj. PAT of Rs7.1bn (PLe:Rs7.0bn) against profit of Rs1.2bn/loss of Rs2.2bn in Q1FY21/Q2FY20.
- Key highlights of con-call:** **1)** Guided steel production of 7.3-7.5mnt (3.5/6.5 in H1FY21/FY20) in FY21e **2)** Booked coking coal till February-2021 **3)** Confident of securing authorities' approval for restart of transportation of iron ore at Sarda mines in current week **4)** 7.5mnt on iron ore inventory lying at Sarda mines **4)** Guided to reduce debt by Rs24bn in H2 **5)** On track for net debt at Rs150bn by FY23e **5)** Expects to divest remaining 51% stake in Shadeed operations by December-2020 **6)** Awaiting clarity from Odisha Govt regarding mismatch in mining area of Guali iron mine which JSP won in Feb'20 at a premium of 144% **7)** Planning to put slurry pipeline for transportation of iron ore; will save cost by Rs1,100/t **8)** Overseas debt fell 58% from Mar-2020 levels to US\$800mn

Exhibit 1: Q2FY21 Result Overview (Rs m)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	89,839	76,878	16.9	74,645	1,64,484	1,61,432	1.9
Raw Material	29,258	30,252	(3.3)	26,754	56,012	63,202	(11.4)
<i>% of Net Sales</i>	<i>32.6</i>	<i>39.4</i>		<i>35.8</i>	<i>34.1</i>	<i>39.2</i>	
Staff Costs	2,277	2,151	5.9	2,284	4,561	4,463	2.2
<i>% of Net Sales</i>	<i>2.5</i>	<i>2.8</i>		<i>3.1</i>	<i>2.8</i>	<i>2.8</i>	
Other Expenses	31,469	29,550	6.5	24,914	56,383	59,251	(4.8)
<i>% of Net Sales</i>	<i>35.0</i>	<i>38.4</i>		<i>33.4</i>	<i>34.3</i>	<i>36.7</i>	
Cost of captive sales	(129)	(256)	NA	(127)	(255)	(591)	(56.9)
<i>% of Net Sales</i>	<i>(0.1)</i>	<i>(0.3)</i>		<i>(0.2)</i>	<i>(0.2)</i>	<i>(0.4)</i>	
Total Expenditure	62,875	61,697	1.9	53,826	1,16,702	1,26,325	(7.6)
EBITDA	26,964	15,181	77.6	20,819	47,783	35,107	36.1
<i>Margin (%)</i>	<i>30.0</i>	<i>19.7</i>		<i>27.9</i>	<i>29.0</i>	<i>21.7</i>	
Depreciation	8,729	9,287	(6.0)	8,641	17,370	18,744	(7.3)
Other income	224	8	-	31	255	17	-
EBIT	18,460	5,902	212.8	12,208	30,668	16,380	87.2
Interest	7,981	9,382	(14.9)	9,240	17,221	19,688	(12.5)
PBT	10,478	(3,480)	NA	2,969	13,447	(3,308)	NA
Extraordinary income/(expense)	1,311	-		1,203	2,513	-	
PBT (After EO)	11,789	(3,480)	NA	4,171	15,960	(3,308)	NA
Tax	2,756	(273)	NA	1,262	4,018	676	NA
<i>% PBT</i>	<i>23.4</i>	<i>7.9</i>		<i>30.2</i>	<i>25.2</i>	<i>(20.4)</i>	
Reported PAT	9,033	(3,207)	NA	2,909	11,942	(3,984)	NA
Minority interest	606	(988)	NA	845	1,450	(1,956)	NA
Net profit attributable to shareholders	8,427	(2,219)	NA	2,065	10,492	(2,028)	NA
Adjusted PAT attributable to shareholders	7,117	(2,219)	NA	1,226	7,979	(2,028)	NA

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Standalone operations							
Steel products (tonnes)	1,930	1,490	29.5	1,560	3,490	3,000	16.3
Revenue (Rs mn)	78,535	65,729	19.5	61,605	1,40,140	1,36,577	2.6
EBITDA (Rs mn)	24,289	12,551	93.5	17,080	41,370	28,630	44.5
<i>Per tonne</i>	<i>12,585</i>	<i>8,423</i>	<i>49.4</i>	<i>10,949</i>	<i>11,854</i>	<i>9,543</i>	<i>24.2</i>
Reported PAT (Rs mn)	9,865	151	-	5,047	14,912	2,390	-
Adjusted PAT (Rs mn)	9,806	151	-	3,845	13,651	2,390	-
Jindal power Ltd							
Gross power generation (Mn units)	2,744	2,271	20.8	2,179	4,923	5,253	(6.3)
Revenue (Rs mn)	9,900	9,470	4.5	8,560	18,460	20,610	(10.4)
EBITDA (Rs mn)	3,020	2,990	1.0	3,680	6,700	6,590	1.7
<i>EBITDA/unit (Rs)</i>	<i>1.2</i>	<i>1.4</i>	<i>(16.4)</i>	<i>1.8</i>	<i>1.5</i>	<i>1.4</i>	<i>8.5</i>
Adjusted PAT (Rs mn)	(10)	(350)	NA	390	380	(120)	NA
Shadeed Iron and steel							
Steel sales volumes (000 tonnes)	480	360	33.3	510	990	770	28.6
EBITDA (US\$m)	26	16	61.8	25	51	42	22.1
<i>Per tonne</i>	<i>54</i>	<i>44</i>	<i>21.4</i>	<i>50</i>	<i>52</i>	<i>55</i>	<i>(5.0)</i>

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	3,70,129	3,94,387	4,18,462	4,28,169
YoY gr. (%)	(6.3)	6.6	6.1	2.3
Cost of Goods Sold	2,91,590	2,89,919	3,24,703	3,27,753
Gross Profit	78,539	1,04,468	93,758	1,00,416
Margin (%)	21.2	26.5	22.4	23.5
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	78,539	1,04,468	93,758	1,00,416
YoY gr. (%)	(6.6)	33.0	(10.3)	7.1
Margin (%)	21.2	26.5	22.4	23.5
Depreciation and Amortization	38,672	41,080	41,053	41,057
EBIT	39,867	63,388	52,705	59,359
Margin (%)	10.8	16.1	12.6	13.9
Net Interest	41,493	37,414	33,419	28,460
Other Income	262	13	13	13
Profit Before Tax	(2,458)	27,190	19,299	30,912
Margin (%)	(0.7)	6.9	4.6	7.2
Total Tax	1,539	10,814	8,100	11,654
Effective tax rate (%)	(62.6)	39.8	42.0	37.7
Profit after tax	(3,997)	16,375	11,199	19,258
Minority interest	(2,905)	(2,849)	(2,765)	(2,107)
Share Profit from Associate	-	-	-	-
Adjusted PAT	(1,486)	25,803	13,964	21,365
YoY gr. (%)	68.3	(1,836.5)	(45.9)	53.0
Margin (%)	(0.4)	6.5	3.3	5.0
Extra Ord. Income / (Exp)	(1,094)	1,203	-	-
Reported PAT	(1,092)	19,225	13,964	21,365
YoY gr. (%)	(93.4)	(1,861.0)	(27.4)	53.0
Margin (%)	(0.3)	4.9	3.3	5.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(1,092)	19,225	13,964	21,365
Equity Shares O/s (m)	1,020	1,020	1,020	1,020
EPS (Rs)	(1.5)	25.3	13.7	20.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	9,48,161	9,58,790	9,68,811	9,78,190
Tangibles	9,48,161	9,58,790	9,68,811	9,78,190
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,60,443	3,01,522	3,42,575	3,83,632
Tangibles	2,60,443	3,01,522	3,42,575	3,83,632
Intangibles	-	-	-	-
Net fixed assets	6,87,718	6,57,268	6,26,236	5,94,558
Tangibles	6,87,718	6,57,268	6,26,236	5,94,558
Intangibles	-	-	-	-
Capital Work In Progress	38,713	36,559	36,012	36,109
Goodwill	6,098	6,098	6,098	6,098
Non-Current Investments	2,024	2,024	2,024	2,024
Net Deferred tax assets	(56,226)	(66,856)	(74,561)	(85,576)
Other Non-Current Assets	2,877	2,877	2,877	2,877
Current Assets				
Investments	376	376	376	376
Inventories	63,687	60,590	62,342	62,927
Trade receivables	35,493	35,167	35,669	35,827
Cash & Bank Balance	9,143	2,854	5,551	6,700
Other Current Assets	44,577	42,817	43,975	44,340
Total Assets	8,97,419	8,53,344	8,27,875	7,98,550
Equity				
Equity Share Capital	1,020	1,020	1,020	1,020
Other Equity	3,20,351	3,39,576	3,53,540	3,74,905
Total Networkth	3,21,371	3,40,596	3,54,560	3,75,925
Non-Current Liabilities				
Long Term borrowings	3,68,244	3,18,244	2,73,244	2,13,244
Provisions	2,966	2,966	2,966	2,966
Other non current liabilities	6	6	6	6
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	55,772	52,203	54,811	55,988
Other current liabilities	87,482	71,219	70,725	71,199
Total Equity & Liabilities	8,97,420	8,53,344	8,27,875	7,98,550

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	(2,458)	27,190	-	-
Add. Depreciation	38,672	41,080	41,053	41,057
Add. Interest	41,493	37,414	33,419	28,460
Less Financial Other Income	262	13	13	13
Add. Other	2,396	(13)	(13)	(13)
Op. profit before WC changes	80,103	1,05,670	74,459	69,504
Net Changes-WC	15,127	(14,649)	(1,535)	544
Direct tax	35	(184)	(395)	(639)
Net cash from Op. activities	95,264	90,837	72,529	69,409
Capital expenditures	(16,307)	(8,475)	(9,475)	(9,475)
Interest / Dividend Income	-	-	-	-
Others	308	13	13	13
Net Cash from Inv. activities	(15,999)	(8,462)	(9,462)	(9,462)
Issue of share cap. / premium	5,051	-	-	-
Debt changes	(38,507)	(50,000)	(45,000)	(60,000)
Dividend paid	-	-	-	-
Interest paid	(40,054)	(37,414)	(33,419)	(28,460)
Others	(2,109)	(1,250)	(1,250)	(1,250)
Net cash from Fin. activities	(75,620)	(88,664)	(79,669)	(89,710)
Net change in cash	3,646	(6,289)	(16,602)	(29,763)
Free Cash Flow	78,619	82,362	63,054	59,934

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	92,998	88,107	91,585	89,839
YoY gr. (%)	(2.8)	(13.3)	(7.9)	0.5
Raw Material Expenses	41,809	27,499	37,121	29,258
Gross Profit	51,190	60,608	54,464	60,581
Margin (%)	55.0	68.8	59.5	67.4
EBITDA	18,196	22,198	22,638	26,964
YoY gr. (%)	(12.4)	20.3	4.2	64.3
Margin (%)	19.6	25.2	24.7	30.0
Depreciation / Depletion	10,179	10,500	9,818	8,729
EBIT	8,016	11,698	12,819	18,235
Margin (%)	8.6	13.3	14.0	20.3
Net Interest	10,024	10,078	10,041	7,981
Other Income	-	246	31	224
Profit before Tax	(2,008)	3,704	4,012	11,789
Margin (%)	(2.2)	4.2	4.4	13.1
Total Tax	178	647	1,336	2,756
Effective tax rate (%)	(8.9)	17.5	33.3	23.4
Profit after Tax	(2,185)	3,056	2,676	9,033
Minority interest	57	(1,006)	845	606
Share Profit from Associates	-	-	-	-
Adjusted PAT	(2,242)	2,224	628	7,117
YoY gr. (%)	835.5	(74.6)	566.5	(336.8)
Margin (%)	(2.4)	2.5	0.7	7.9
Extra Ord. Income / (Exp)	-	1,838	1,203	1,311
Reported PAT	(2,242)	4,062	1,831	8,427
YoY gr. (%)	835.5	(118.9)	1,841.7	(380.4)
Margin (%)	(2.4)	4.6	2.0	9.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(2,242)	4,062	1,831	8,427
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

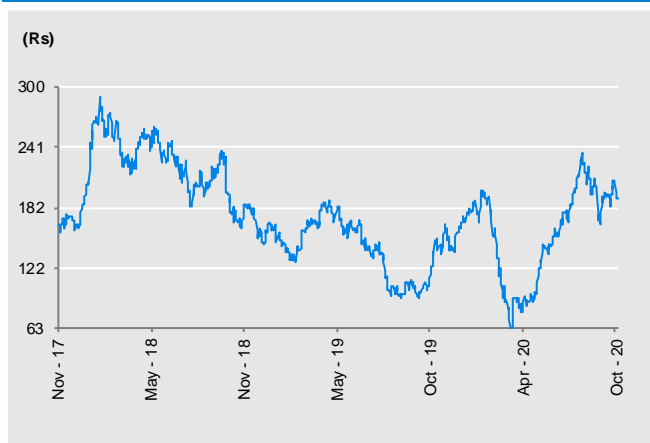
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	(1.5)	25.3	13.7	20.9
CEPS	36.5	65.6	53.9	61.2
BVPS	315.1	333.9	347.6	368.6
FCF	77.1	80.7	61.8	58.8
DPS	-	-	-	-
Return Ratio(%)				
RoCE	5.7	9.4	8.2	9.8
ROIC	9.3	5.7	4.8	6.1
RoE	(0.5)	7.8	4.0	5.8
Balance Sheet				
Net Debt : Equity (x)	1.1	0.9	0.8	0.5
Net Working Capital (Days)	43	40	38	36
Valuation(x)				
PER	(131.0)	7.5	13.9	9.1
P/B	0.6	0.6	0.5	0.5
P/CEPS	5.2	2.9	3.5	3.1
EV/EBITDA	7.0	4.9	4.9	4.0
EV/Sales	1.5	1.3	1.1	0.9
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Standalone operations				
Metallics Sales (Tonnes)		2,58,900	2,27,918	
Steel Prod. Sales (Tonnes)	60,60,000	70,64,259	73,12,176	73,97,556
Steel Sales Vol. (Tonnes)	60,60,000	70,64,259	75,71,076	76,25,474
Real. / tn-Steel	38,778	36,828	30,536	30,735
JSP-L-Pwr (m kwh)			986	889
JSP-L-Real/ Kwh	3	3	3	3
Stdalon Steel EBITDA(Rs m)	57,773	83,850	70,197	73,971
Stdalon Pwr EBITDA(Rs m)			296	267
Stdalon Total EBITDA (Rs m)	57,773	83,850	70,493	74,238
Stdalon PAT (Rs m)	6,177	25,755	18,771	25,406
Jindal Power Ltd				
JPL-Kwh sold (m)	10,128	10,128	10,868	11,289
JPL-Rate / Kwh	4	4	4	4
JPL-EBITDA(Rsm)	12,468	14,979	16,124	17,294
JPL-PAT (Rs m)	(5,082)	(1,408)	964	19,386
Shadeed iron and Steel				
Shadeed EBITDA (US\$ m)	138	100	120	143
PAT (US\$ m)			32	52

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-20	BUY	260	195
2	23-Jul-20	BUY	215	172
3	10-Jul-20	BUY	180	164
4	26-May-20	BUY	150	109
5	20-Apr-20	BUY	150	92
6	20-Jan-20	BUY	205	179
7	14-Jan-20	BUY	190	178
8	03-Jan-20	BUY	185	172
9	06-Nov-19	BUY	170	135
10	04-Nov-19	BUY	170	137

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,805	1,563
2	Ambuja Cement	BUY	285	254
3	Coal India	Hold	132	113
4	Heidelberg Cement India	Hold	195	185
5	Hindalco Industries	BUY	218	174
6	Hindustan Zinc	Hold	235	223
7	Jindal Steel & Power	BUY	260	195
8	JK Lakshmi Cement	BUY	350	263
9	JSW Steel	Reduce	223	321
10	NMDC	Accumulate	98	83
11	Shree Cement	Reduce	19,100	20,297
12	Steel Authority of India	Reduce	30	34
13	Tata Steel	Reduce	315	374
14	The Ramco Cements	Reduce	660	756
15	Ultratech Cement	BUY	5,400	4,629

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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