

Jindal Steel and Power

BSE SENSEX 40,616 S&P CNX 11,909



Bloomberg	JSP IN
Equity Shares (m)	1,020
M.Cap.(INRb)/(USD\$b)	211.7 / 2.7
52-Week Range (INR)	238 / 62
1, 6, 12 Rel. Per (%)	4/115/50
12M Avg Val (INR M)	3108

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	370.0	333.3	342.6
EBITDA	78.5	107.1	93.0
Adj. PAT	-5.6	26.1	16.2
Adj. EPS (INR)	-5.5	25.6	15.8
EPS Gr(%)	NA	NA	-38
BV/Sh. (INR)	315	273	289
RoE (%)	-1.7	8.7	5.6
RoCE (%)	4.8	10.3	9.2
Payout (%)	0.0	0.0	0.0

Valuations

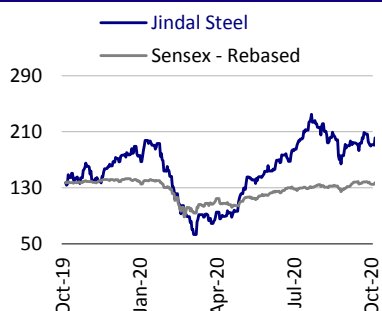
P/E (x)	-37.9	8.1	13.1
P/BV	0.7	0.8	0.7
EV/EBITDA (x)	7.5	4.4	4.7
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	60.5	60.5	60.4
DII	13.7	14.0	11.1
FII	12.2	12.0	15.3
Others	13.6	13.5	13.3

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR208

TP: INR261 (+26%)

Buy

Gare Palma win to lead to savings of INR4.5b annually

JPL the highest bidder in Gare Palma IV/1 coal block auction

Jindal Power Limited (JPL), subsidiary of Jindal Steel and Power (JSP), emerged as the highest bidder in the auction of the 6mtpa Gare Palma IV/1 coal block at 25% of the coal price based on the National Coal Index. We estimate average savings of ~INR750/t on 6mt coal, implying savings of INR4.5b/year. Assigning a 5x EBITDA multiple could potentially add INR22/sh (~8%) to our SOTP value for JSP at INR261/share.

All eyes on central govt. for block allocation

- JPL emerged as the highest bidder by agreeing to pay ~25% premium against the coal price in the bidding process. The reserve price for the block stood at 24%. Other participants in the auction consisted of Hindalco and Adani Enterprises.
- Post the conclusion of the coal auctions on 9th Nov 2020, the central govt. shall approve the successful bidder of the coal block. Hereafter, the agreement shall be executed between JPL and the central govt. for block allocation. However, in 2019, the central govt. did not allocate the block to JSP even after the company emerged as the highest bidder in auction at INR230/t.
- The Gare Palma IV/1 block has a production capacity of 6mtpa and reserves of 159mt. The mine is currently operated by Coal India Ltd. The co. previously operated the mine before its subsequent de-allocation in 2015. The mine is ~50km away from the co.'s power plant. The company already has a conveyor belt from the mine to its plant; thus, there would be substantial savings on freight costs. Management has informed that it would take 10–12 months to commence operations at the mine post its allocation.

Coal block to generate savings of ~INR4.5b annually

- JPL has agreed to pay a ~25% premium on coal price based on the National Coal Index. As per the Index, average price of relevant-grade (G13-14) stood at ~INR1,200/t in Apr'20. Thus, JPL would have to pay a premium of INR300/t of coal.
- We estimate average savings of INR500/t on coal cost (after netting out mining cost) and INR250/t on freight. Thus, we estimate total cost savings of INR750/t.
- Improved coal security for JPL could significantly boost JPL's PLF from current levels of 32–35%. This would lead to further improvement in JPL's EBITDA.
- Based on 6mtpa coal production from this mine, the addition to JSP's consolidated EBITDA should be INR4.5b – ~5% of its estimated FY22E EBITDA.

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Deleveraging to continue, driven by strong FCF

- The Gare Palma IV/1 coal block, if allocated by the central govt., would not only generate savings of INR4.5b/yr on coal cost but also improve JPL's PLF –thereby leading to higher EBITDA generation through value addition. We have not factored this into our estimates pending the allocation of the block.
- We expect margins to remain strong in 2HFY21, driven by an expected increase in long steel prices, cost tailwinds from lower coking coal costs, and the continued benefit of free-of-cost iron ore.
- With JSP booking significant exports in 1HFY21 and an expected improvement in domestic demand in 2HFY21, we expect the company to achieve ~20% volume growth in FY21. We expect JSP to achieve a ~16% EBITDA CAGR (excl. Oman) to reach INR93.0b over FY20–22E, driven by an expected 11% volume CAGR.
- We expect JSP to reduce its net debt by INR155b (INR152/share) to INR224b (incl. acceptances) over FY20–22E through strong FCF generation, led by higher EBITDA and lower capex. We expect JSP to refinance its overseas debt maturities (~USD800m). This would elongate the debt repayment schedule, thereby reducing the strain on standalone cash flows.
- Reiterate **Buy**, with SOTP-based TP of INR261, based on 5.0x FY22E EBITDA for the Steel business and DCF valuation for the Power business. At CMP, the stock trades attractively at 3.8x FY22E EV/EBITDA for the Steel business.

Exhibit 1: JSP – key financials

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net sales	1,83,709	2,10,194	2,76,244	3,93,721	3,69,955	3,33,295	3,42,647
Steel business (incl. CPP)	1,53,559	1,79,004	2,35,434	3,55,901	3,32,375	2,96,216	3,05,845
Standalone	1,27,126	1,38,481	1,73,061	2,77,160	2,62,283	2,96,216	3,05,845
Steel sales (kt)	3,350	3,350	3,760	5,120	5,700	6,850	7,000
Pellet sales (kt)	962	2,910	3,080	2,940	2,370	2,800	2,400
Jindal power	30,150	31,190	40,810	37,820	37,580	40,012	39,734
PLF (%)	29	31	37	35	32	35	36
Sales (Mkwh)	8,730	8,442	10,033	9,564	8,643	9,501	9,880
EBITDA	34,410	46,613	64,691	84,056	78,539	1,07,070	92,991
Steel business (incl. CPP)	27,810	36,133	50,351	73,300	66,418	91,022	78,408
(a) Standalone	24,392	28,877	39,731	60,172	57,774	92,623	80,009
EBITDA/t of steel	7,281	8,620	10,567	11,752	10,136	13,522	11,430
Jindal power	6,600	10,480	14,340	10,756	12,121	16,048	14,582
EBITDA (INR/kwh)	0.8	1.2	1.4	1.1	1.4	1.7	1.5

Source: Company, MOFSL

Valuation and view

- **Volume growth to drive ~16% EBITDA CAGR:** With JSP booking significant exports in 1HFY21 and an expected improvement in domestic demand in 2HFY21, we expect the company to achieve ~20% volume growth in FY21. We expect JSP to achieve a ~16% EBITDA CAGR (excl. Oman) to reach INR93.0b over FY20–22E, driven by an expected 11% volume CAGR.
- **Deleveraging to continue:** We expect JSP to reduce its net debt by INR155b (INR152/share) to INR224b (incl. acceptances) over FY20–22E through strong FCF generation, led by higher EBITDA and lower capex. We expect JSP to refinance its overseas debt maturities (~USD800m). This would elongate the debt repayment schedule, thereby reducing the strain on standalone cash flows.

- **Valuation:** Reiterate **Buy**, with SOTP-based TP of INR261, based on 5.0x FY22E EBITDA for the Steel business and DCF valuation for the Power business. At CMP, the stock trades attractively at 3.8x FY22E EV/EBITDA for the Steel business.

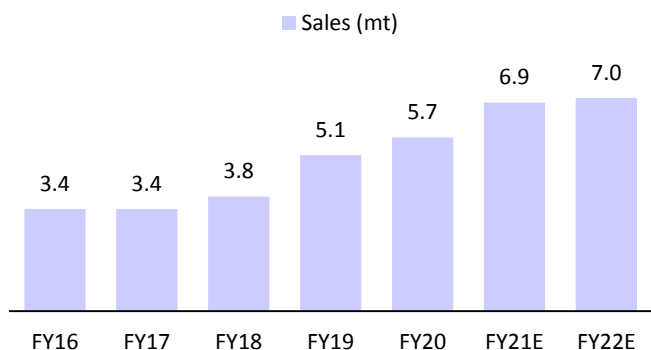
Exhibit 2: Target price calculation

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Steel Business							
A. EBITDA				72,496	66,049	91,022	78,408
B. Target EV/EBITDA(x)							5.0
C. EV (AxB)							3,92,042
Jindal Power (JPL)							
D. PV of JPL's FCF							98,734
Consolidated							
EBITDA	34,410	46,613	64,691	84,056	78,539	1,07,070	92,991
E. Enterprise Value (C+D)							4,90,776
F. Net Debt	4,63,928	4,61,427	4,38,319	4,10,943	3,79,230	2,56,930	2,24,049
Equity Value (E-F)							2,66,727
Target price (INR/share)							261

Source: MOFSL, Company

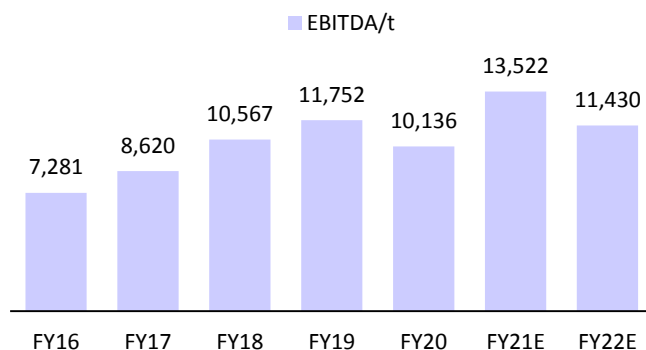
Story in charts

Exhibit 1: Sales (excl. pig iron) to increase at ~11% CAGR over FY20–22E



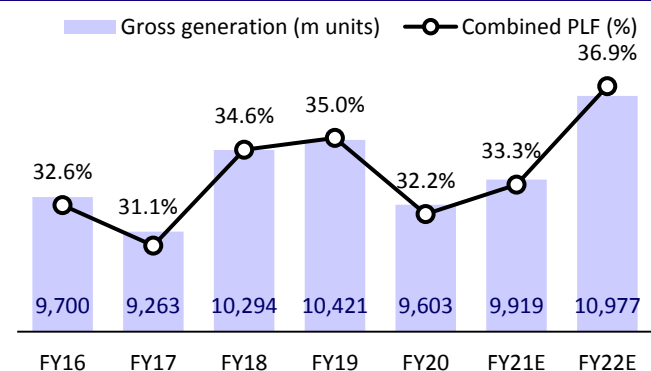
Source: Company, MOFSL

Exhibit 2: EBITDA/t to remain strong over FY21–22



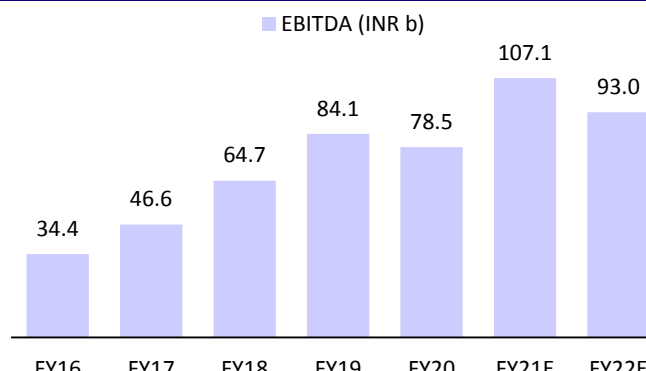
Source: Company, MOFSL

Exhibit 3: JPL's power generation trend



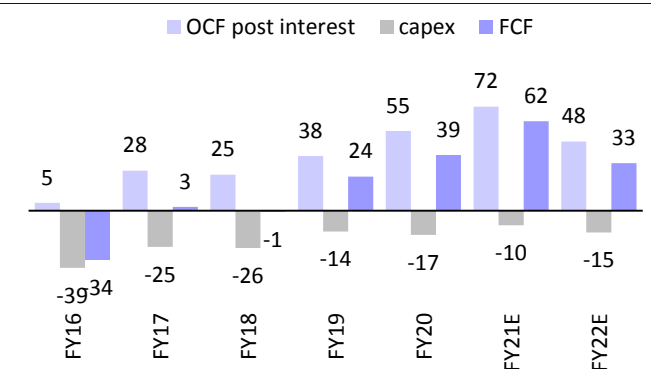
Source: Company, MOFSL

Exhibit 4: Consolidated EBITDA to increase at ~16% CAGR over FY20–22E (excl. Oman EBITDA)



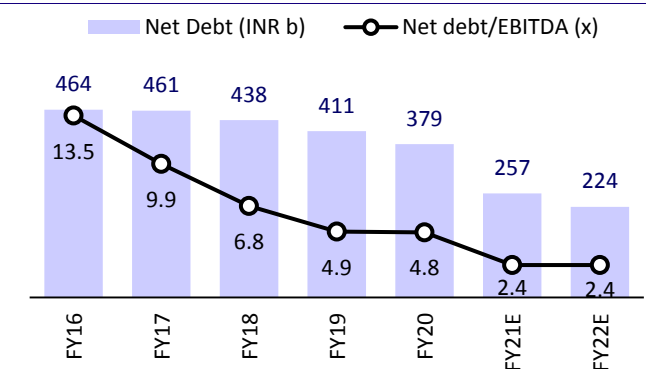
Source: Company, MOFSL

Exhibit 5: Higher OCF and lower capex to keep FCF positive



Source: Company, MOFSL

Exhibit 6: Net debt to decline by INR155b over FY20–22E



Source: Company, MOFSL

Financials and valuations

Income Statement (Consolidated)								(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	
Net sales	2,01,592	1,83,709	2,10,194	2,76,244	3,93,721	3,69,955	3,33,295	3,42,647	
Change (%)	4.5	-8.9	14.4	31.4	42.5	-6.0	-9.9	2.8	
Total Expenses	1,46,994	1,49,299	1,63,581	2,11,553	3,09,666	2,91,416	2,26,225	2,49,657	
EBITDA	54,598	34,410	46,613	64,691	84,056	78,539	1,07,070	92,991	
% of Net Sales	27.1	18.7	22.2	23.4	21.3	21.2	32.1	27.1	
Depn. & Amortization	27,328	28,194	39,490	38,830	41,938	41,604	34,800	34,347	
EBIT	27,270	6,216	7,122	25,861	42,118	36,935	72,271	58,644	
Net Interest	25,837	32,808	34,240	38,657	42,642	41,493	33,060	31,264	
Other income	2,256	2,200	411	29	157	262	255		
PBT before EO	3,689	-24,391	-26,706	-12,767	-367	-4,296	39,466	27,380	
EO income	-19,116	-2,358	-3,723	-5,874	-27,650	1,838	1,373	0	
PBT after EO	-15,428	-26,750	-30,429	-18,641	-28,017	-2,458	40,839	27,380	
Tax	-882	-6,763	-5,027	-2,398	-3,902	1,539	11,041	8,549	
Rate (%)	5.7	25.3	16.5	12.9	13.9	-62.6	27.0	31.2	
Reported PAT	-14,546	-19,987	-25,402	-16,243	-24,115	-3,996	29,798	18,832	
Minority interests	-1,738	-980	-2,524	-2,064	-7,644	-2,150	2,650	2,650	
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	-3,683	26,146	16,181	
Change (%)	-66.8	-363.0	14.8	-57.0	-138.7	NA	NA	-38.1	

Balance Sheet (Consolidated)								(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	
Share Capital	915	915	915	968	968	1,020	1,020	1,020	
Reserves	2,09,506	1,80,556	2,99,590	3,02,878	3,23,309	3,20,351	2,77,610	2,93,791	
Net Worth	2,10,421	1,81,471	3,00,505	3,03,846	3,24,276	3,21,371	2,78,630	2,94,811	
Minority Interest	8,573	8,003	6,467	4,403	-3,011	-7,764	5,550	8,201	
Total Loans	4,55,007	4,70,132	4,66,571	4,43,104	4,15,227	3,88,749	3,14,404	2,74,404	
Deferred Tax Liability	20,185	13,477	53,586	50,284	53,643	56,225	48,832	49,842	
Capital Employed	6,94,185	6,73,082	8,27,129	8,01,638	7,90,135	7,58,580	6,47,416	6,27,258	
Gross Block	6,12,235	6,27,116	7,83,127	8,46,580	9,00,003	9,50,772	8,14,934	8,24,934	
Less: Accum. Deprn.	1,51,286	1,78,233	1,29,476	1,68,002	2,09,940	2,51,544	2,68,440	3,02,787	
Net Fixed Assets	4,60,949	4,48,883	6,53,651	6,78,578	6,90,063	6,99,228	5,46,493	5,22,147	
Capital WIP	90,728	1,18,266	97,162	49,775	40,272	19,745	19,745	24,745	
Goodwill & Revaluation	5,485	5,485	5,670	5,922	6,164	6,098	6,098	6,098	
Investments	17,852	3,577	3,677	1,458	1,452	1,430	1,430	1,430	
Curr. Assets	1,80,353	1,59,182	1,45,820	1,56,572	1,57,902	1,70,917	2,04,615	2,04,572	
Inventory	48,487	32,360	35,993	49,596	65,095	63,687	52,962	59,142	
Account Receivables	16,907	14,292	17,166	18,261	30,292	35,493	31,960	32,857	
Cash and Bank Balance	11,391	6,204	5,144	4,786	4,284	9,519	57,475	50,355	
Loans & advances and others	1,03,568	1,06,326	87,517	83,930	58,231	62,219	62,219	62,219	
Curr. Liability & Prov.	61,181	62,310	78,850	90,667	1,05,718	1,38,838	1,30,965	1,31,734	
Account Payables	38,391	42,186	22,221	28,434	32,087	35,651	27,394	28,163	
Provisions & Others	22,790	20,124	56,629	62,233	73,631	1,03,187	1,03,571	1,03,571	
Net Current Assets	1,19,172	96,872	66,970	65,905	52,184	32,079	73,649	72,838	
Appl. of Funds	6,94,185	6,73,082	8,27,129	8,01,638	7,90,135	7,58,581	6,47,416	6,27,258	

Financials and valuations

Ratios (Consolidated)								
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)								
EPS	6.9	(18.2)	(20.9)	(8.5)	3.3	(3.6)	25.6	15.8
Cash EPS	14.0	9.0	15.4	23.3	18.4	36.9	63.3	52.1
BV/Share	230.0	198.4	328.4	313.9	335.0	315.1	273.2	289.0
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					63.1	NA	8.1	13.1
Cash P/E					11.2	5.6	3.3	4.0
P/BV					0.6	0.7	0.8	0.7
EV/Sales					1.6	1.6	1.4	1.3
EV/EBITDA					7.3	7.5	4.4	4.7
Dividend Yield (%)					0.0	0.0	0.0	0.0
Return Ratios (%)								
EBITDA Margins (%)	27.1	18.7	22.2	23.4	21.3	21.2	32.1	27.1
Net Profit Margins (%)	3.1	(9.1)	(9.1)	(3.0)	0.8	(1.0)	7.8	4.7
RoE	2.9	(8.5)	(7.9)	(2.6)	1.0	(1.1)	8.7	5.6
RoCE (pre-tax)	4.5	1.2	1.0	3.2	5.3	4.8	10.3	9.2
RoIC (pre-tax)	5.5	1.1	1.1	3.6	5.7	5.1	11.3	10.6
Working Capital Ratios								
Fixed Asset Turnover (x)	0.4	0.3	0.3	0.4	0.5	0.5	0.6	0.6
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.5	0.5	0.4	0.4
Inventory (Days)	88	64	63	66	60	63	58	63
Debtor (Days)	31	28	30	24	28	35	35	35
Payable (Days)	70	84	39	38	30	35	30	30
Leverage Ratio (x)								
Current Ratio	2.9	2.6	1.8	1.7	1.5	1.2	1.6	1.6
Interest Cover Ratio	1.1	0.2	0.2	0.7	1.0	0.9	2.2	1.9
Debt/Equity	2.1	2.6	1.5	1.4	1.3	1.2	0.9	0.8
Cash Flow Statement (Consolidated)								(INR m)
Y/E March	2015	2016	2017	2018	2019	2020	2021	2022
EBITDA	54,598	34,410	46,613	64,691	84,056	78,539	1,07,070	92,991
Non cash exp. (income)	-21,600	-4,581	-1,020	2,853	1,262	1,569		
(Inc)/Dec in Wkg. Cap.	-18,154	11,762	7,190	-9,267	-23,983	-771	6,001	-6,308
Tax Paid	-3,393	-170	450	-553	296	35	-9,434	-7,539
others			15,840	14,101	22,001	15,894	1,373	
CF from Op. Activity	11,451	41,422	69,072	71,825	83,632	95,265	1,05,011	79,144
(Inc)/Dec in FA + CWIP	-50,964	-39,500	-24,975	-25,767	-14,333	-16,646	-10,000	-15,000
(Pur)/Sale of Investments	-13,430	15,904	5,164	12,299	2,436	339		
Acquisition in subsidiaries	367	1,052					3,750	0
Loans and advances	0	-1,337	-934	-2,376	3,044	-219		
Int. & Dividend Income	1,003	2,292	754	1,533	532	527	255	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	-15,999	-5,995	-15,000
Equity raised/(repaid)	5	0	0	13,883	0	5,129		
Debt raised/(repaid)	90,704	9,230	-10,256	-24,391	-30,260	-40,676	-18,000	-40,000
Dividend (incl. tax)	-1,448	-8	0	15	-18	-18	0	0
Interest paid	-34,381	-35,941	-41,396	-46,845	-45,699	-40,054	-33,060	-31,264
Other financing	271	0						
CF from Fin. Activity	55,151	-26,719	-51,651	-57,338	-75,280	-74,032	-51,060	-71,264
(Inc)/Dec in Cash	1,238	-5,187	-1,060	-358	-502	5,235	47,956	-7,120
Add: opening Balance	10,153	11,391	6,204	5,144	4,786	4,284	9,519	57,475
Closing Balance	11,391	6,204	5,144	4,786	4,284	9,519	57,475	50,355

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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