

Jindal Steel and Power

BSE SENSEX
48,177

S&P CNX
14,133

CMP: INR288

TP: INR375 (+30%)

Buy



Bloomberg	JSP IN
Equity Shares (m)	1,020
M.Cap.(INRb)/(USD\$b)	293.4 / 3.8
52-Week Range (INR)	289 / 62
1, 6, 12 Rel. Per (%)	1/53/51
12M Avg Val (INR M)	2860

Financials & Valuations (INR b)

Y/E March	2021E	2022E	2023E
Sales	367.4	377.6	390.3
EBITDA	127.8	108.2	104.4
Adj. PAT	42.6	33.0	36.2
Adj. EPS (INR)	41.7	32.3	35.4
EPS Gr. (%)	-863	-22	10
BV/Sh. (INR)	289	322	357
RoE (%)	13.8	10.6	10.4
RoCE (%)	13.1	11.1	10.1
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	6.9	8.9	8.1
P/BV	1.0	0.9	0.8
EV/EBITDA (x)	4.2	4.5	4.1
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 (one-year)



Gare Palma win to turnaround JPL's operations

Adds 14% to EPS and 8% to SoTP

Jindal Power (JPL), a subsidiary of JSP, has been declared the winner of the 6mtpa Gare Palma IV/1 coal block by the Ministry of Coal. This would substitute e-auction coal purchases by JPL, reducing cost by ~INR900/t on volumes of 6mtpa, implying annual savings of INR5.5b. It would increase consolidated EPS by INR4.4/share (14%) and valuation by ~INR27/share (~8%). We expect JPL to be able to operate this block in 6-9 months (i.e. by 3QFY22), which would partly help substitute the operating loss from the exhaustion of Sarda iron ore inventory by 2QFY22. Reiterate Buy on the following:

- Volume ramp-up continues:** Despite ~22% volume growth, JSP's capacity utilization would still be only 89% in FY21E. It has achieved 100% utilization for the first time in Dec'20, implying potential growth of ~10% in steel volumes to 8mt over the next two years.
- EBITDA margin to stay strong:** With rebar prices rising 40% over the last two months, we expect JSP to record among its highest ever EBITDA/t of ~INR19,000/t in 2HFY21. Despite factoring in a 20% discount to current steel prices and unavailability of Sarda iron ore inventory from 2HFY22, we expect EBITDA margin to be strong at ~INR13,000/t. This, coupled with volume growth, should drive 14% CAGR in standalone EBITDA over FY20-23E.
- Turnaround in JPL operations on coal availability:** JPL has been operating at sub-35% PLF levels over the last few years due to lack of PPAs and tight coal supply. With improved coal supply in 3QFY21, its PLF has improved to ~50%. With the availability of cheaper coal from Gare Palma from 2HFY22 onwards, we expect it to operate ~43%/~45% PLF in FY22E/FY23E. We expect 19% EBITDA CAGR over FY20-23E to INR20.3b. We have factored in benefit of ~INR5b p.a. from the Gare Palma coal block from 2HFY22 in our estimates.
- Deleveraging at comfortable levels, could lead to the start of a new phase of expansion:** Led by strong EBITDA growth, limited capex and Oman divestment proceeds, we estimate JSP's net debt to decline by INR185b (INR181/sh) over FY20-22E to INR194b (INR191/sh), implying a net debt-to-EBITDA of 1.8x. This should give flexibility to JSP to consider expanding its upstream and downstream steel capacity.
- Valuation remains comfortable:** At the CMP, the stock trades at an attractive 3.5x FY22E EV/EBITDA for the steel business which is a significant discount to peers (Tata Steel and JSW Steel).
- We value JSP on a SoTP-based TP of INR375/sh, based on 5x FY22E EV/EBITDA for the Steel business and DCF valuation for the Power business.

Amit Murarka – Research Analyst (Amit.Murarka@MotilalOswal.com)

Basant Joshi – Research Analyst (Basant.Joshi@MotilalOswal.com)

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

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: JSP – key financials

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23
Net sales	1,83,709	2,10,194	2,76,244	3,93,721	3,69,955	3,67,432	3,77,632	3,90,335
Steel business (incl. CPP)	1,53,559	1,79,004	2,35,434	3,55,901	3,32,375	3,22,245	3,34,438	3,45,268
Standalone	1,27,126	1,38,481	1,73,061	2,77,160	2,62,283	3,22,245	3,34,438	3,45,268
Steel sales (kt)	3,350	3,350	3,760	5,120	5,700	6,950	7,200	7,704
Pellet sales (kt)	962	2,910	3,080	2,940	2,370	2,700	2,300	1,900
Jindal Power	30,150	31,190	40,810	37,820	37,580	48,119	46,126	47,999
PLF (%)	29	31	37	35	32	42	43	44
Sales (Mkwh)	8,730	8,442	10,033	9,564	8,643	11,388	11,537	11,931
EBITDA	34,410	46,613	64,691	84,056	78,539	1,27,820	1,08,204	1,04,430
Steel business (incl. CPP)	27,810	36,133	50,351	73,300	66,418	1,10,092	90,817	84,158
(a) Standalone	24,392	28,877	39,731	60,172	57,774	1,11,693	92,418	85,758
EBITDA/t of steel	7,281	8,620	10,567	11,752	10,136	16,071	12,836	11,132
Jindal Power	6,600	10,480	14,340	10,756	12,121	17,728	17,387	20,273
EBITDA (INR/kwh)	0.8	1.2	1.4	1.1	1.4	1.6	1.5	1.7

Source: Company, MOFSL

Coal block savings to partly substitute windfall gains from Sarda iron ore

We expect JPL to be able to operate this block in 6-9 months (i.e. by 3QFY22). The timing of the win could not have been better as it would help partly mitigate the loss of consolidated EBITDA from the exhaustion of Sarda iron ore inventory by 2QFY22. We estimate additions of ~INR5b from Sarda to JSP's quarterly EBITDA, which would not be there from 3QFY22. Nearly 25% of this loss would thus be substituted by the Gare Palma win, thereby cushioning the consolidated EBITDA decline.

Exhibit 2: JSP to save ~INR5.5b p.a. from Gare Palma coal

INR/t	Gare Palma	e-auction
Base price	NA	1,800
Mining cost	500	0
Development cost/op. capex	250	0
Premium at 25% of Coal Index	283	0
Royalty and other levies	228	228
Coal cess	400	400
Freight	100	250
Landed cost of coal	1,761	2,678
Savings/t	917	
Annual savings on 6mt (INR m)	5,501	

Source: MOFSL

Exhibit 3: National Coal Index prices for G-13 and G-14 Grade

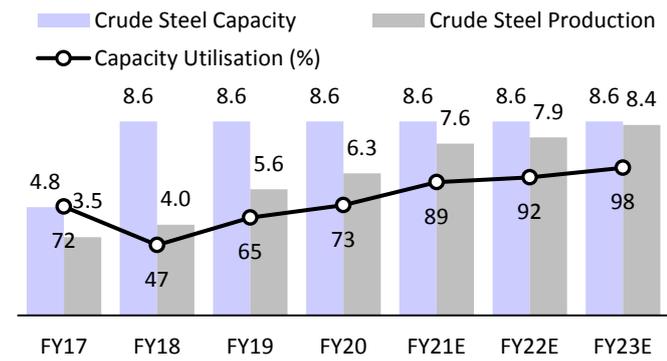
Coal Index	G13	G14	Average
Mar'20	1,270	1,098	1,184
Apr'20	1,267	1,087	1,177
May'20	1,260	1,072	1,166
Jun'20	1,210	1,026	1,118
Jul'20	1,180	1,002	1,091
Aug'20	1,186	1,003	1,095
Sep'20	1,194	1,005	1,100

Source: Ministry of Coal, MOFSL

Enough spare capacity to tap increased steel demand

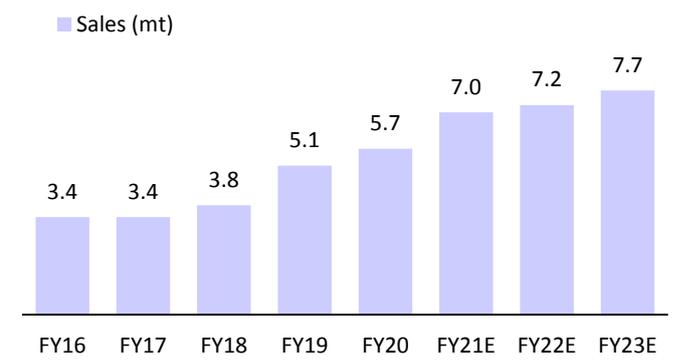
JSP has a crude/finished Steel capacity of 8.6mtpa/6.5mtpa. We expect it to clock sales volumes of ~7.0mt in FY21E, implying crude capacity utilization of 89%. With the demand for steel rising, the company has enough spare capacity to tap increased demand over the next two years. We expect steel volumes of 7.2mt/7.7mt in FY22E/FY23E, implying ~11% CAGR over FY20-23E. We believe better demand would lead to an improved product mix in FY22.

Exhibit 4: Capacity utilization to improve to 92% in FY22E



Source: Company, MOFSL

Exhibit 5: Expect ~10% CAGR in sales volume over FY20-23E

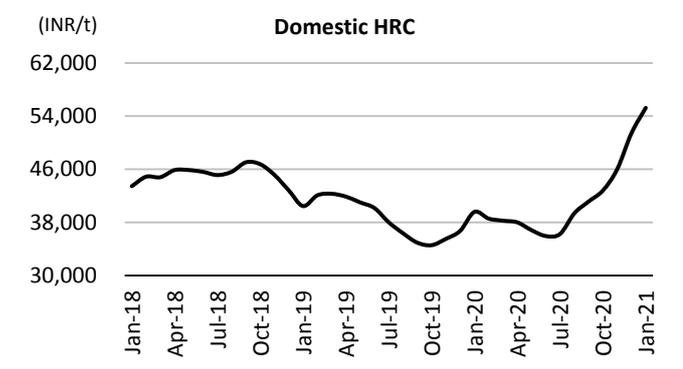


Source: Company, MOFSL

Elevated Steel prices to keep profitability higher in the near term

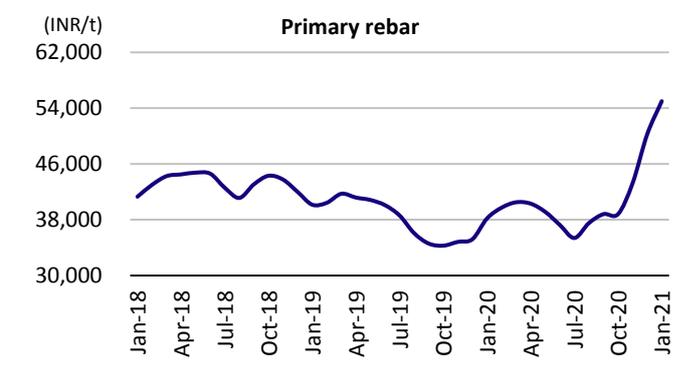
Given the strong demand for Steel from the Infra and Construction segment and higher iron ore prices, we expect construction steel prices to remain strong in the near term. This would lead to an EBITDA/t of ~INR19,500 in 2HFY21E. Even after factoring in lower steel prices in FY22E (~20% discount to spot prices), higher coking coal prices (USD150/t in FY22E v/s USD115/t currently), and lower usage of Sarda iron ore (~3mt in FY22E v/s 8mt in FY21E), we expect JSP to clock EBITDA/t of INR12,836. This would lead to a 14% standalone EBITDA CAGR over FY20-23E.

Exhibit 6: HRC prices rise ~50% since Jul'20



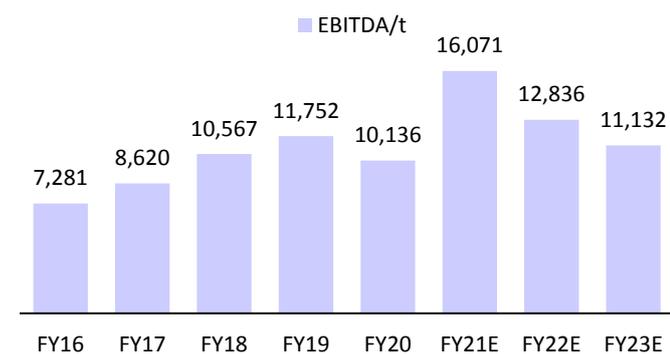
Source: Steelmint, MOFSL

Exhibit 7: Rebar prices too rise ~50% since Jul'20



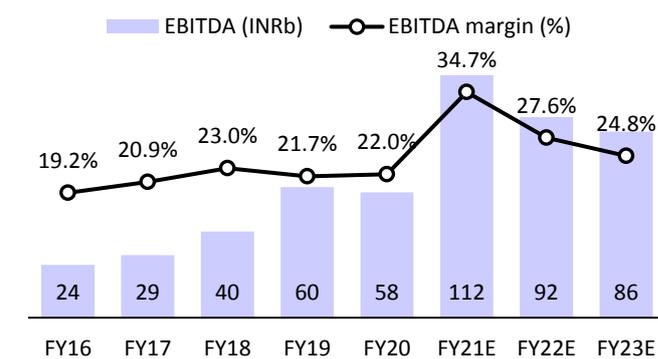
Source: Steelmint, MOFSL

Exhibit 8: Even on conservative estimates, EBITDA/t and...



Source: Company, MOFSL

Exhibit 9: ...EBITDA to remain strong in FY22-23E

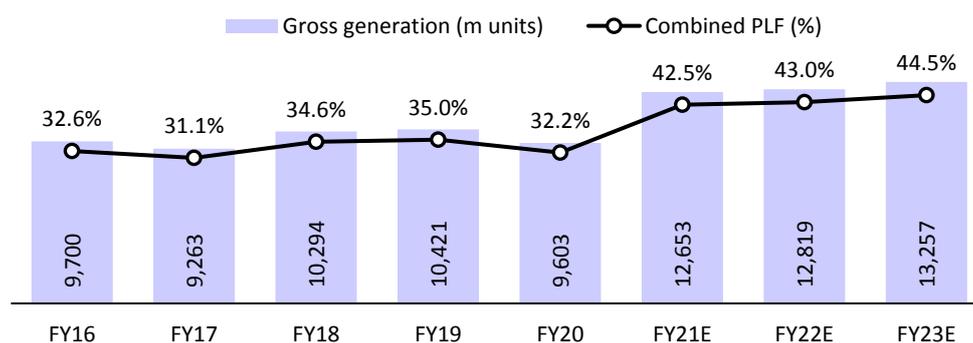


Source: Company, MOFSL

JPL operations to improve significantly

JPL has been operating at sub-35 PLF levels for the last five years due to lower PPAs and coal availability. We expect improved availability from the Gare Palma coal block to improve Power generation. The company currently has linkages available for 1,200MW capacity. With ~6mt of additional coal availability, it could increase Power generation by ~8b units (80% higher than FY20E). Due to lower rates and absence of PPAs, the management may not substantially increase Power generation, but rather aim to replace its e-auction purchases. It currently has PPAs of ~810MW at Tamnar-II and has long-term coal linkages for the same. At 50% PLF level, it has a coal requirement of ~10mt, of which ~5.5mt can be met through linkage coal and the balance through coal from the Gare Palma block. Power generation has remained strong in 3QFY21 due to better coal availability and improved merchant power prices. We have factored in Power sales of 11.3b/11.5b units in FY21E/FY22E (42%/43% PLF). Full benefits of the block would be realized from FY23E onwards. Availability of Gare Palma would allow JPL to bid even more competitively for PPAs in the future.

Exhibit 10: JPL’s power generation trend



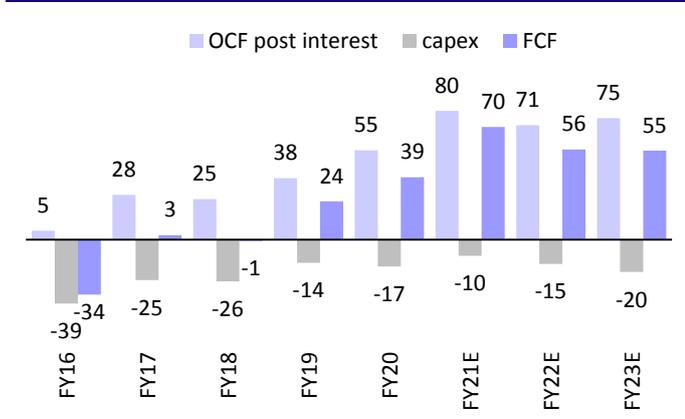
Source: Company, MOFSL

Deleveraging at comfortable levels, could trigger next expansion phase

JSP has deleveraged its Balance Sheet by 20% over FY17-20 on the back of strong cash flows and limited capex. With the divestment of the Oman business and strong FCF generation on the back of a strong pricing trend, we expect JSP to nearly halve its debt to INR194b (INR191/share) over FY20-22E. Net debt-to-EBITDA would reduce to comfortable levels of 1.8x in FY22E. With net debt declining to

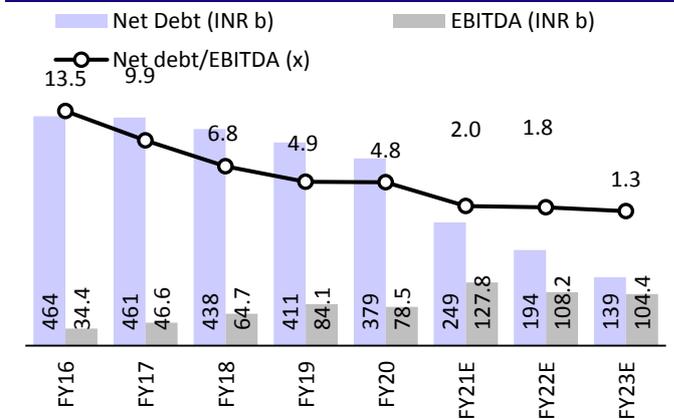
comfortable levels, we expect JSP to plan the next leg of expansion in its upstream and downstream Steel capacity from FY23E onwards.

Exhibit 11: FCF to remain strong on higher EBITDA and limited capex



Source: Company, MOFSL

Exhibit 12: Net debt to EBITDA to decline significantly (below 2x) in FY22E



Source: Company, MOFSL

Valuation and view

- Visibility over volume growth:** Despite ~22% volume growth in FY21E, JSP’s capacity utilization would still be only 89%, implying ~11% growth in Steel volumes to 8mt over the next two years. We expect its EBITDA to grow by ~15% CAGR (excluding Oman) to INR104b over FY20-23E.
- Deleveraging to continue:** We expect JSP to reduce its net debt by INR185b (INR181/share) to INR194b (including acceptances) over FY20-22E through strong FCF generation, led by higher EBITDA and lower capex. We expect the company to refinance its overseas debt maturities (~USD800m). This would elongate its debt repayment schedule, thereby reducing the strain on standalone cash flows.
- Valuation:** We reiterate **Buy**, with a SoTP-based TP of INR375 per share, based on 5x FY22E EBITDA for the Steel business and DCF valuation for the Power business. At the CMP, the stock trades at an attractive 3.5x FY22E EV/EBITDA for the Steel business.

Exhibit 13: Change in estimates

INR m	Revised		Old		Change (%)	
	FY21	FY22	FY21	FY22	FY21	FY22
Standalone						
Volumes - mt	7.0	7.2	6.9	7.0	1.5	2.9
Realization/t (INR)	46,366	46,450	44,470	44,149	4.3	5.2
EBITDA/t (INR)	16,071	12,836	14,659	12,198	9.6	5.2
EBITDA	1,11,693	92,418	1,00,414	85,384	11.2	8.2
JPL						
Sales (MUs)	11,388	11,537	10,326	9,880	10.3	16.8
EBITDA	17,728	17,387	17,216	14,950	3.0	16.3
Consolidated						
Revenue	3,67,432	3,77,632	3,45,242	3,45,847	6.4	9.2
EBITDA	1,27,820	1,08,204	1,16,029	98,733	10.2	9.6
PAT	42,566	33,025	32,890	21,555	29.4	53.2
Target price		375		307		22.2

Source: MOFSL

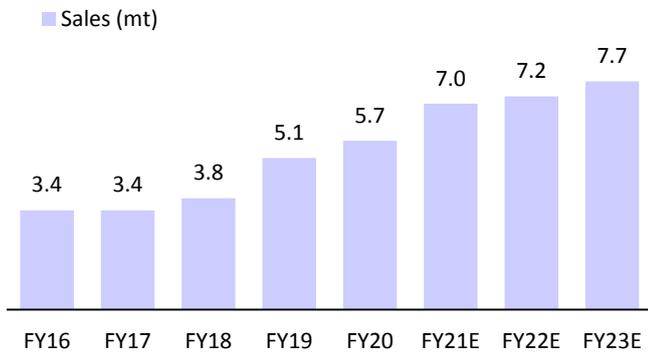
Exhibit 14: Target price calculation

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Steel Business							
A. EBITDA				72,496	66,418	1,10,092	90,817
B. Target EV/EBITDA(x)							5.0
C. EV (AxB)						0	4,54,087
Jindal Power (JPL)							
D. PV of JPL's FCF							1,22,320
Consolidated							
EBITDA	34,410	46,613	64,691	84,056	78,539	1,27,820	1,08,204
E. Enterprise Value (C+D)						0	5,76,407
F. Net Debt	4,63,928	4,61,427	4,38,319	4,10,943	3,78,846	2,49,278	1,93,576
Equity Value (E-F)							3,82,830
Target price (INR/share)							375

Source: MOFSL, Company

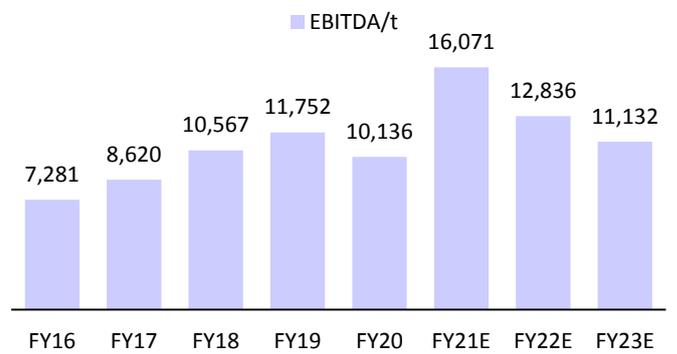
Story in charts

Exhibit 15: Sales* to increase by ~11% CAGR over FY20-23E



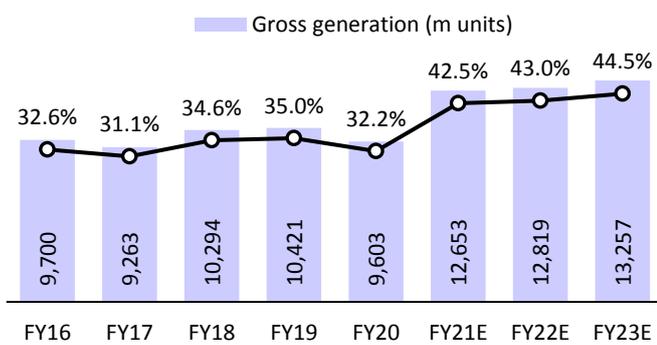
Source: Company, MOFSL; *excl. pig iron

Exhibit 16: EBITDA/t to remain strong



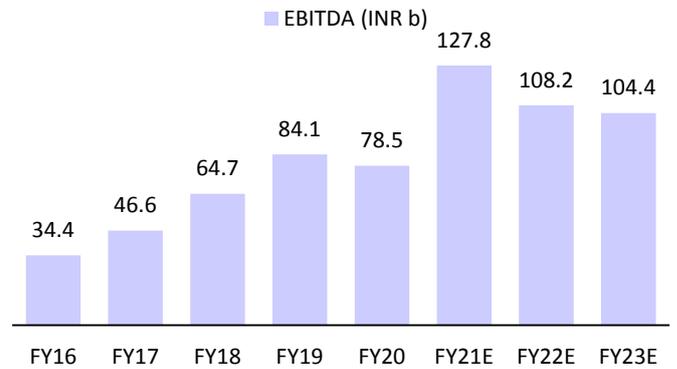
Source: Company, MOFSL

Exhibit 17: JPL's power generation trend



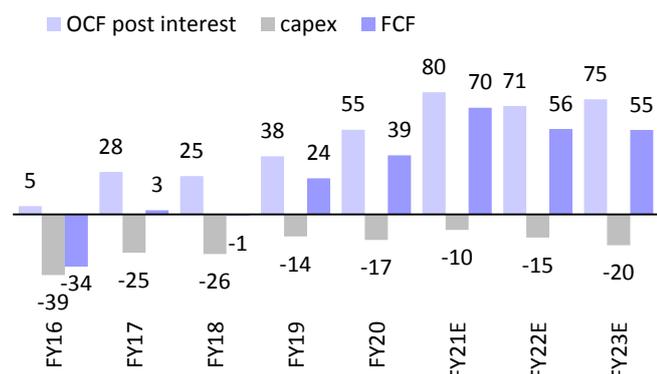
Source: Company, MOFSL

Exhibit 18: Consolidated EBITDA to increase by ~15% CAGR over FY20-23E (excl. Oman EBITDA)



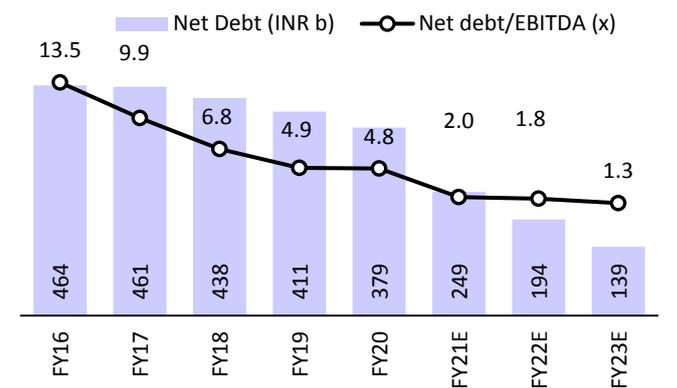
Source: Company, MOFSL

Exhibit 19: Higher OCF and lower capex to keep FCF positive



Source: Company, MOFSL

Exhibit 20: Net debt to decline by INR185b over FY20-22E



Source: Company, MOFSL

Financials and valuations

Income Statement (Consolidated)								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net sales	1,83,709	2,10,194	2,76,244	3,93,721	3,69,955	3,67,432	3,77,632	3,90,335
Change (%)	-8.9	14.4	31.4	42.5	-6.0	-0.7	2.8	3.4
Total Expenses	1,49,299	1,63,581	2,11,553	3,09,666	2,91,416	2,39,611	2,69,428	2,85,904
EBITDA	34,410	46,613	64,691	84,056	78,539	1,27,820	1,08,204	1,04,430
% of Net Sales	18.7	22.2	23.4	21.3	21.2	34.8	28.7	26.8
Depn. and Amortization	28,194	39,490	38,830	41,938	41,604	34,800	34,347	37,241
EBIT	6,216	7,122	25,861	42,118	36,935	93,021	73,857	67,189
Net Interest	32,808	34,240	38,657	42,642	41,493	31,406	25,464	19,925
Other income	2,200	411	29	157	262	255		
PBT before EO	-24,391	-26,706	-12,767	-367	-4,296	61,870	48,393	47,264
EO income	-2,358	-3,723	-5,874	-27,650	1,838	1,373	0	0
PBT after EO	-26,750	-30,429	-18,641	-28,017	-2,458	63,243	48,393	47,264
Tax	-6,763	-5,027	-2,398	-3,902	1,539	16,832	12,718	10,963
Rate (%)	25.3	16.5	12.9	13.9	-62.6	26.6	26.3	26.3
Reported PAT	-19,987	-25,402	-16,243	-24,115	-3,996	46,411	35,675	36,300
Minority interests	-980	-2,524	-2,064	-7,644	-2,150	2,650	2,650	135
Preference dividend	0	0	0	0	0	0	0	0
Share of Associates	-14	27	87	0	0	0	0	0
Adjusted PAT	-16,662	-19,128	-8,218	3,178	-3,683	42,566	33,025	36,166
Change (%)	-363.0	14.8	-57.0	-138.7	NA	-863.0	-22.4	9.5

Balance Sheet (Consolidated)								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	915	915	968	968	1,020	1,020	1,020	1,020
Reserves	1,80,556	2,99,590	3,02,878	3,23,309	3,20,351	2,94,223	3,27,248	3,63,414
Net Worth	1,81,471	3,00,505	3,03,846	3,24,276	3,21,371	2,95,243	3,28,268	3,64,434
Minority Interest	8,003	6,467	4,403	-3,011	-7,764	5,550	8,201	8,335
Total Loans	4,70,132	4,66,571	4,43,104	4,15,227	3,88,749	3,14,404	2,74,404	2,44,404
Deferred Tax Liability	13,477	53,586	50,284	53,643	56,225	50,795	53,376	51,918
Capital Employed	6,73,082	8,27,129	8,01,638	7,90,135	7,58,580	6,65,993	6,64,249	6,69,092
Gross Block	6,27,116	7,83,127	8,46,580	9,00,003	9,50,772	8,14,934	8,24,934	8,34,934
Less: Accum. Deprn.	1,78,233	1,29,476	1,68,002	2,09,940	2,51,544	2,68,440	3,02,787	3,40,029
Net Fixed Assets	4,48,883	6,53,651	6,78,578	6,90,063	6,99,228	5,46,493	5,22,147	4,94,905
Capital WIP	1,18,266	97,162	49,775	40,272	19,745	19,745	24,745	34,745
Goodwill and Revaluation	5,485	5,670	5,922	6,164	6,098	6,098	6,098	6,098
Investments	3,577	3,677	1,458	1,452	1,430	1,430	1,430	1,430
Curr. Assets	1,59,182	1,45,820	1,56,572	1,57,902	1,70,917	2,25,997	2,44,438	2,72,913
Inventory	32,360	35,993	49,596	65,095	63,687	63,420	65,180	67,373
Account Receivables	14,292	17,166	18,261	30,292	35,493	35,233	36,211	37,429
Cash and Bank Balance	6,204	5,144	4,786	4,284	9,519	65,126	80,828	1,05,893
Loans and advances and others	1,06,326	87,517	83,930	58,231	62,219	62,219	62,219	62,219
Curr. Liability and Prov.	62,310	78,850	90,667	1,05,718	1,38,838	1,33,771	1,34,609	1,41,001
Account Payables	42,186	22,221	28,434	32,087	35,651	30,200	31,038	37,429
Provisions and Others	20,124	56,629	62,233	73,631	1,03,187	1,03,571	1,03,571	1,03,571
Net Current Assets	96,872	66,970	65,905	52,184	32,079	92,226	1,09,829	1,31,913
Appl. of Funds	6,73,082	8,27,129	8,01,638	7,90,135	7,58,581	6,65,993	6,64,249	6,69,092

Financials and valuations

Ratios (Consolidated)								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)								
EPS	(18.2)	(20.9)	(8.5)	3.3	(3.6)	41.7	32.3	35.4
Cash EPS	9.0	15.4	23.3	18.4	36.9	79.6	68.6	72.1
BV/Share	198.4	328.4	313.9	335.0	315.1	289.5	321.8	357.3
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E				87.8	(52.7)	6.9	8.9	8.1
Cash P/E				15.6	7.8	3.6	4.2	4.0
P/BV				0.9	0.9	1.0	0.9	0.8
EV/Sales				1.8	1.8	1.5	1.3	1.1
EV/EBITDA				8.2	8.6	4.2	4.5	4.1
Dividend Yield (%)				0.0	0.0	0.0	0.0	0.0
Return Ratios (%)								
EBITDA Margin (%)	18.7	22.2	23.4	21.3	21.2	34.8	28.7	26.8
Net Profit Margin (%)	(9.1)	(9.1)	(3.0)	0.8	(1.0)	11.6	8.7	9.3
RoE	(8.5)	(7.9)	(2.6)	1.0	(1.1)	13.8	10.6	10.4
RoCE (pre-tax)	1.2	1.0	3.2	5.3	4.8	13.1	11.1	10.1
RoIC (pre-tax)	1.1	1.1	3.6	5.7	5.1	14.4	13.1	12.5
Working Capital Ratios								
Fixed Asset Turnover (x)	0.3	0.3	0.4	0.5	0.5	0.6	0.7	0.7
Asset Turnover (x)	0.3	0.3	0.3	0.5	0.5	0.4	0.4	0.4
Inventory (Days)	64	63	66	60	63	63	63	63
Debtor (Days)	28	30	24	28	35	35	35	35
Payable (Days)	84	39	38	30	35	30	30	35
Leverage Ratio (x)								
Current Ratio	2.6	1.8	1.7	1.5	1.2	1.7	1.8	1.9
Interest Coverage Ratio	0.2	0.2	0.7	1.0	0.9	3.0	2.9	3.4
Debt/Equity	2.6	1.5	1.4	1.3	1.2	0.8	0.6	0.4
Cash Flow Statement (Consolidated)								
(INR m)								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
EBITDA	34,410	46,613	64,691	84,056	78,539	1,27,820	1,08,204	1,04,430
Non cash exp. (income)	-4,581	-1,020	2,853	1,262	1,569			
(Inc.)/Dec. in Wkg. Cap.	11,762	7,190	-9,267	-23,983	-771	-4,924	-1,900	2,981
Tax Paid	-170	450	-553	296	35	-13,261	-10,137	-12,421
Others		15,840	14,101	22,001	15,894	1,373		
CF from Op. Activity	41,422	69,072	71,825	83,632	95,265	1,11,008	96,166	94,990
(Inc.)/Dec. in FA + CWIP	-39,500	-24,975	-25,767	-14,333	-16,646	-10,000	-15,000	-20,000
(Pur.)/Sale of Investments	15,904	5,164	12,299	2,436	339			
Acquisition in subsidiaries	1,052					3,750	0	0
Loans and advances	-1,337	-934	-2,376	3,044	-219			
Int. and Dividend Income	2,292	754	1,533	532	527	255	0	0
Other investing activities	1,699	1,511	-533	-533				
CF from Inv. Activity	-19,889	-18,481	-14,845	-8,853	-15,999	-5,995	-15,000	-20,000
Equity raised/(repaid)	0	0	13,883	0	5,129			
Debt raised/(repaid)	9,230	-10,256	-24,391	-30,260	-40,676	-18,000	-40,000	-30,000
Dividend (incl. tax)	-8	0	15	-18	-18	0	0	0
Interest paid	-35,941	-41,396	-46,845	-45,699	-40,054	-31,406	-25,464	-19,925
Other financing	0							
CF from Fin. Activity	-26,719	-51,651	-57,338	-75,280	-74,032	-49,406	-65,464	-49,925
(Inc.)/Dec. in Cash	-5,187	-1,060	-358	-502	5,235	55,607	15,702	25,065
Add: Opening Balance	11,391	6,204	5,144	4,786	4,284	9,519	65,126	80,828
Closing Balance	6,204	5,144	4,786	4,284	9,519	65,126	80,828	1,05,893

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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