

Jindal Steel & Power (JSP IN)

Rating: BUY | CMP: Rs381 | TP: Rs555

December 9, 2021

Company Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	555		535	
Sales (Rs. m)	5,17,115	5,52,733	4,92,361	5,16,487
% Chng.	5.0	7.0		
EBITDA (Rs. m)	1,16,708	1,23,829	1,18,582	1,19,695
% Chng.	(1.6)	3.5		
EPS (Rs.)	45.2	52.6	53.3	56.2
% Chng.	(15.3)	(6.4)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	3,88,789	5,35,871	5,17,115	5,52,733
EBITDA (Rs. m)	1,42,962	1,69,407	1,16,708	1,23,829
Margin (%)	36.8	31.6	22.6	22.4
PAT (Rs. m)	77,794	82,897	46,067	53,678
EPS (Rs.)	76.3	81.3	45.2	52.6
Gr. (%)	(2,277.1)	6.6	(44.4)	16.5
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	24.3	23.1	10.9	11.3
RoCE (%)	16.7	21.2	12.3	12.8
EV/Sales (x)	1.6	1.0	1.0	0.8
EV/EBITDA (x)	4.3	3.1	4.2	3.7
PE (x)	5.0	4.7	8.4	7.2
P/BV (x)	1.2	1.0	0.9	0.8

Key Data

JNSP.BO | JSP IN

52-W High / Low	Rs.502 / Rs.245
Sensex / Nifty	58,650 / 17,470
Market Cap	Rs.389bn / \$ 5,156m
Shares Outstanding	1,020m
3M Avg. Daily Value	Rs.3382.77m

Shareholding Pattern (%)

Promoter's	60.47
Foreign	9.93
Domestic Institution	14.96
Public & Others	14.64
Promoter Pledge (Rs bn)	105.01

Stock Performance (%)

	1M	6M	12M
Absolute	(10.2)	(5.1)	46.5
Relative	(7.3)	(15.4)	13.9

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Correction provides an attractive entry

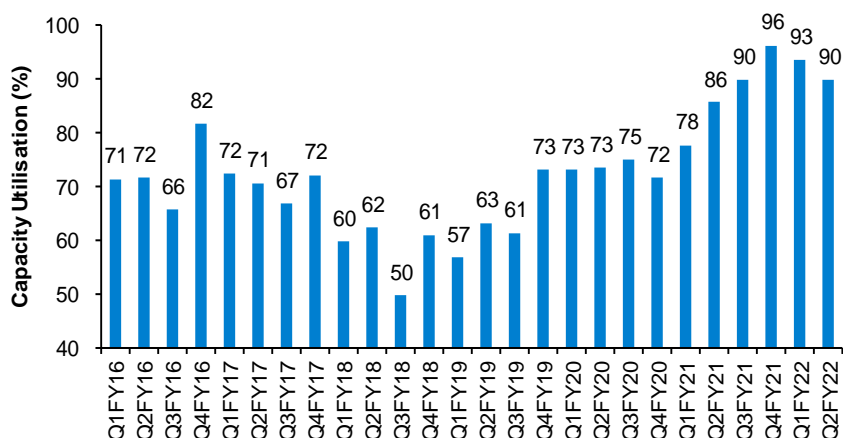
Domestic steel stocks have been under pressure due to 2x increase in coking coal prices, negative sentiments on Chinese demand and 50% fall in iron ore prices. Strong steel prices and lower costs benefitted the Ferrous sector over last 18-months with record earnings and near 40% fall in debt levels. However, JSP was able to make the most with ramp-up of its Angul plant after a long wait as utilisation rate increased from average 70% to 90%+. Production till FY20 was impacted due to coal quality issues (for coal gasifier based DRI capacity) and weak financial condition resulting in delay of Blast furnace (BF) integrated commissioning. Led by high operating leverage and structurally better spreads, we expect JSP's sustainable EBITDA/t's trajectory to expand by 20% to Rs12,000 (Q2FY22/FY22e: Rs21,200/Rs20,000) in FY23e over FY16-FY20 average. Given the pure play on domestic long steel, strong B/S (Net debt/EBITDA<0.5x) and attractive valuations (EV/EBITDA<4x), we reiterate BUY rating with TP of Rs555 based on EV/EBITDA of 6.0x FY23e.

- **Near debt free B/S with gearing at 0.4x EBITDA:** JSP reduced net debt by 82%/Rs372bn (including cash of Rs30.4bn to be received on closure of JPL deal in Q4FY22e) to Rs81bn since FY17 through free cash flow generation and divestment of Oman steel operations and Jindal Power (JPL). 45% of reduction was contributed by divestments (40%) and issuance of equity (5%) while rest through operating cash flows. We expect net debt to fall to Rs42bn in FY23e with gearing at 0.4x on lower EBITDA/t at Rs12,000 and accelerated capex.
- **Expanding capacity through internal accruals:** Company is augmenting capacity by 63% to 15.6mnt in two phases of 3mtpa each at a total capital outlay of Rs180bn over FY22-FY26. Most importantly, entire of the capex would be funded through internal accruals after factoring reasonable margins. Ordering for first phase is already completed with commissioning expected by end of FY24. While, second phase is expected to commission by end of FY25/ mid of FY26. Capex includes investment on slurry pipeline for transporting iron ore from mines in Barbil to Angul steel plant. This would further boost overall IRR on investment given the significant savings on transportation of iron ore.
- **Strong outlook on its product basket:** JSP sells ~85% of its volumes in form of longs and plates, catering primarily to infrastructure, housing and capital intensive sectors. Given the strong outlook on these sectors, demand for its products stand on firm footing. JSP's unparalleled product basket in longs ranging from rails, beams, value added plates, rebar, wire rods, structural and fabricated beams would help in exploiting the strength in demand.
- **Overseas coal operations to benefit:** JSP's Mozambique coal mining operations produces 4mtpa of raw coal/year with saleable coal of 1.2mnt, broken up between semi-hard coking coal/medium grade thermal coal of 0.8mnt/0.4mnt. Company's Australian coking coal mining operations also resumed operations in September as it secured statutory clearances to mine 3.7mnt of coal over next 5 years. Factoring conservative coking coal price/thermal coal price of US\$250/US\$100 (current price of US\$320/US\$130), we expect overseas coal operations to contribute an EBITDA of US\$20mn (Rs1.5bn)/quarter.

Capacity utilisation moved to 90%+ after a long pain

JSP's utilisation remained under pressure till FY20 due to technical issues with gas based DRI plant (capacity-2mnt), working capital issues (due to weak financial condition) and slow ramp-up of Blast furnace (Capacity-4.5mnt). Utilisation picked up strongly Q2FY21 and onwards with utilisation in excess of 90% on back of stabilisation of coal gasifiers and BF. The output would further increase by 0.7-1.0mnt as its Angul operations received consent to operate (CTE) from Govt of Odisha to produce BF up to 4.5mnt, the rated capacity.

Exhibit 1: Utilisation rate improved to highest ever levels

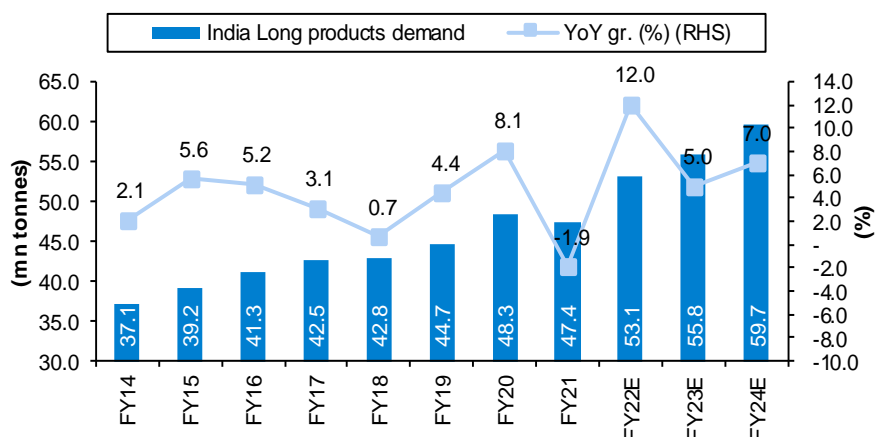


Source: Company, PL

Construction focused product portfolio, beneficiary of strong infrastructure and housing demand

JSP sells ~3/4th of its volumes in form of long steel, catering primarily to construction and capital intensive sectors. Given the strong outlook on infrastructure, industrial and housing sector, demand for long products stand on firm footing. JSP's unparalleled product basket in longs ranging from rails, beams, rebar, wire rods, structural and fabricated beams would help in exploiting the strength in demand. Demand-supply dynamics also stand far better than flats with limited capacity addition in primary segment.

Exhibit 2: Long Products demand trend in India



Source: Company, PL

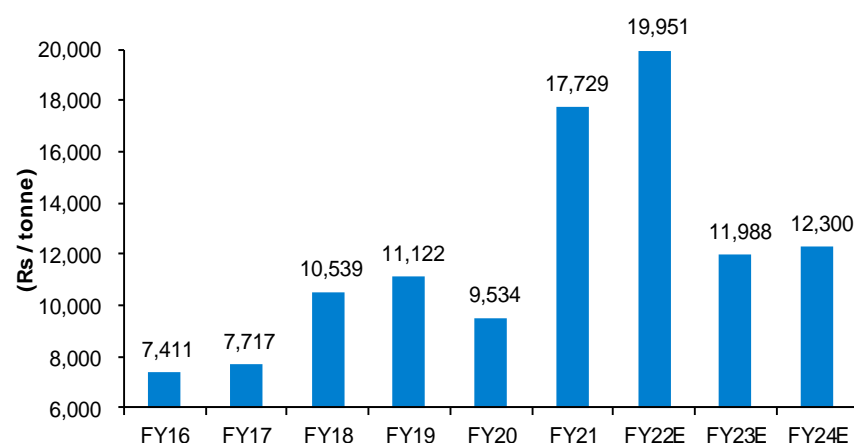
Better visibility on margins backed by stable operations

JSP's EBITDA margins in FY16-FY20 remained volatile with range of Rs7,500-11,000/t due to unstable DRI operations in Odisha, delay in integrated commissioning of BF and unavailability of thermal coal (with deallocation of captive coal block and delay in auction of coal linkages by Coal India). Weak financial condition also restrained the cost competitiveness on procurement of raw materials during this period.

Margins in FY21 were boosted by steep increase in utilisation levels, release of low cost iron ore fines inventory of 12.5mnt lying at Sarda mines and better realisations. Margins are expected to further expand to ~Rs20,000/t in FY22e on back of strong spreads, benefit of low cost iron ore inventory and low input costs.

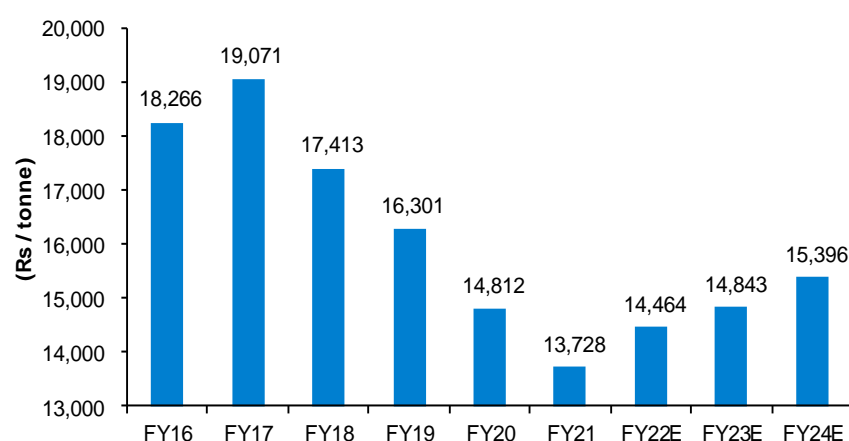
Admittedly, FY22 margins are unsustainable due to abnormal price levels and late pick-up in coal costs. Hence, we expect margins to stabilise at Rs12,000/t in FY23e due to contraction in spreads and lower margins in exports. Our estimate factors 20% higher margins over FY16-FY21 average, largely on account of lower fixed costs and better efficiencies.

Exhibit 3: Margins to stabilise at Rs12,000/t, higher by 20% over FY16-20 avg



Source: Company, PL

Exhibit 4: High operating leverage to keep cost (Ex-RM) low



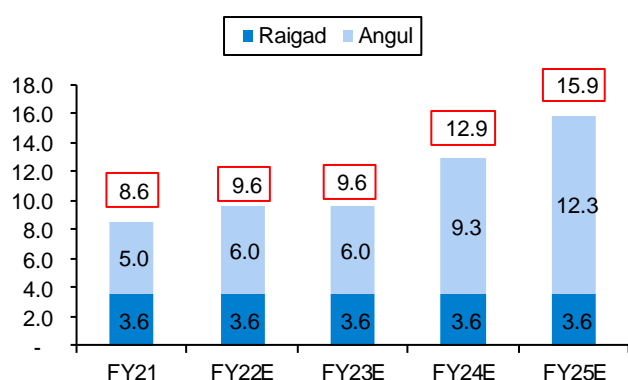
Source: Company, PL

Embarking on brownfield expansion to drive growth

JSP's legacy plant in Chhattisgarh houses 42% of its total capacity. The next leg of growth was contributed by greenfield plant in Angul, Odisha which started operations in FY15. Given the strong logistics network, proximity of mineral resources and better availability of land base, Angul was the obvious choice to lead the next phase of expansion. Company is doubling the capacity of Angul to 12mnt in couple of phases of 3mnt each at a low capex cost of US\$390/t. In first phase, company will put Blast Oxygen Furnace (BoF) of 3.3mnt to produce HR coils. With this expansion, JSP will make an entry in conventional and highly concentrated flat products market. Ordering is already completed with commissioning targeted by end of FY24. In second phase, it will replicate its existing coal gasifier based DRI with capacity of 3mnt. It would be commissioned by end of FY25.

Supported by strong financial position, company is investing on high pay back and sustainability enhancing project of slurry pipeline. Nearly 80% of iron ore requirement of Angul plant which is currently moved through rail/road route would be replaced with highly cost effective slurry pipeline. Pipeline will connect its recently won Kasia mine and other merchant mines with its Angul plant.

Exhibit 5: Current and post expansion plant-wise capacity



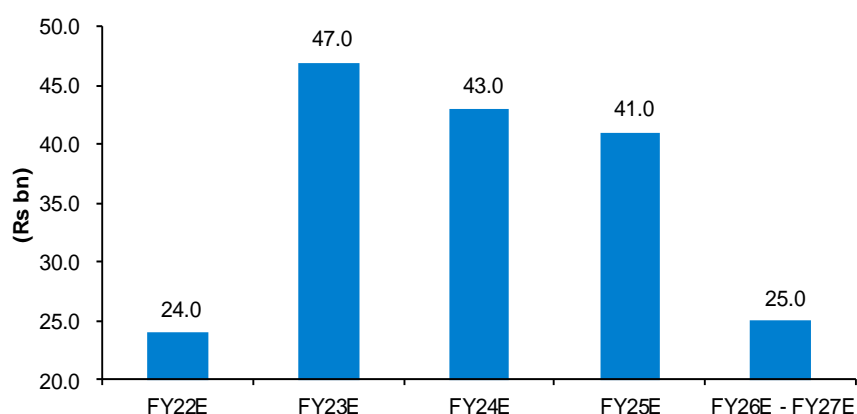
Source: Company, PL

Exhibit 6: Commissioning timeline of expansion projects

Project	Timeline
Hot Strip Mill (HSM) Phase #1: 3mtpa	Feb'23
Slurry Pipeline	Sep'23
HSM Phase-2 of 1.5 mtpa	Sep'23
BF: 4.25mtpa	Dec'23
BoF : 3.3mtpa	Dec'23
DRI: 2.7mtpa	Feb'25
EAF: 3mtpa	Feb'25

Source: Company, PL

Exhibit 7: Capex of Rs180bn to be spent over FY22-FY27e

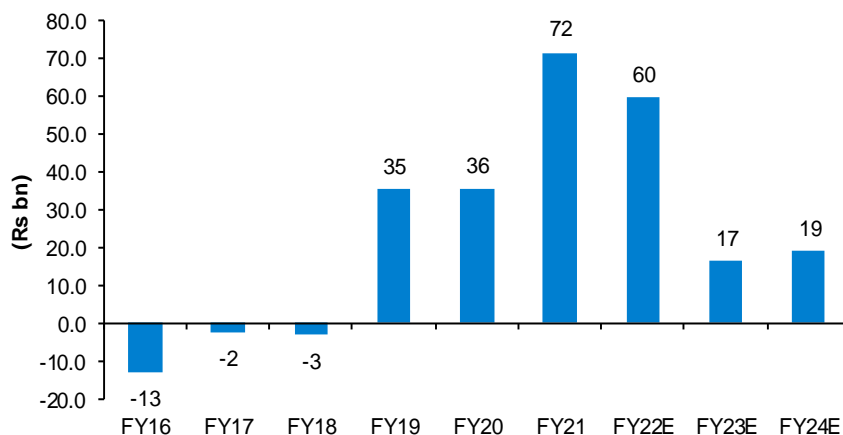


Source: Company, PL

Net debt/EBITDA to trend below 0.5x

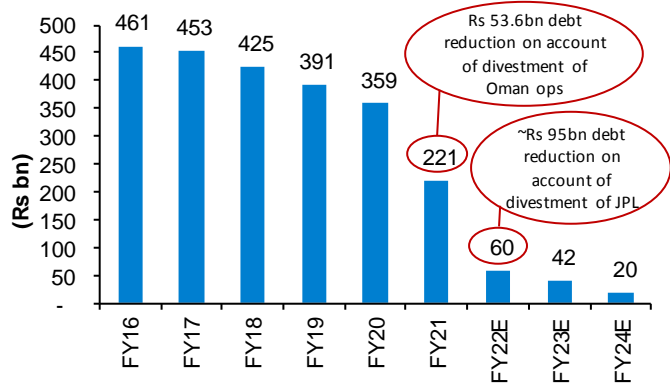
Company generated FCF of Rs143bn in FY19-FY21 on back of strong operating cash flows and lean capex (average Rs7bn/year v/s avg of Rs22.6bn in FY16-FY18). We expect FCF of Rs95bn in FY22e-FY24e after factoring capex of Rs133bn and EBITDA/t of Rs12,000/t in FY23e and FY24e. Net debt/EBITDA to remain below 0.5x in FY23e even after incurring sizeable capex.

Exhibit 8: Strong FCF generation due to improved operating performance



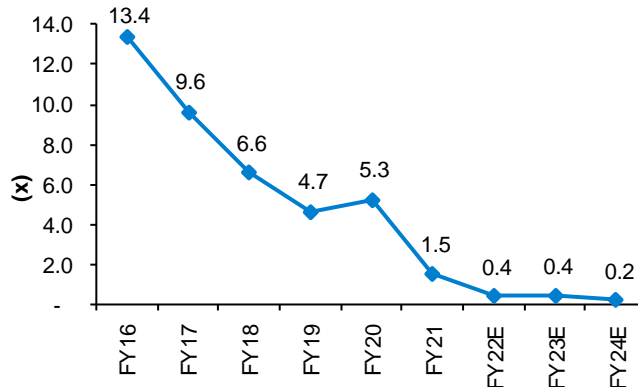
Source: Company, PL

Exhibit 9: Debt to fall to Rs42bn/Rs20bn in FY23e/FY24



Source: Company, PL

Exhibit 10: Net Debt/EBITDA to sustain below 0.5x



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	3,88,789	5,35,871	5,17,115	5,52,733
YoY gr. (%)	27.2	37.8	(3.5)	6.9
Cost of Goods Sold	2,45,827	3,66,463	4,00,407	4,28,903
Gross Profit	1,42,962	1,69,407	1,16,708	1,23,829
Margin (%)	36.8	31.6	22.6	22.4
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	1,42,962	1,69,407	1,16,708	1,23,829
YoY gr. (%)	109.8	18.5	(31.1)	6.1
Margin (%)	36.8	31.6	22.6	22.4
Depreciation and Amortization	34,533	36,768	36,779	36,839
EBIT	1,08,428	1,32,639	79,929	86,990
Margin (%)	27.9	24.8	15.5	15.7
Net Interest	30,933	23,904	20,529	18,729
Other Income	391	389	437	477
Profit Before Tax	72,956	1,09,124	59,837	68,738
Margin (%)	18.8	20.4	11.6	12.4
Total Tax	17,687	28,363	15,042	17,135
Effective tax rate (%)	24.2	26.0	25.1	24.9
Profit after tax	55,269	80,761	44,795	51,603
Minority interest	2,548	(2,136)	(1,273)	(2,075)
Share Profit from Associate	-	-	-	-
Adjusted PAT	77,794	82,897	46,067	53,678
YoY gr. (%)	(2,277.1)	6.6	(44.4)	16.5
Margin (%)	20.0	15.5	8.9	9.7
Extra Ord. Income / (Exp)	(4,929)	-	-	-
Reported PAT	52,721	82,897	46,067	53,678
YoY gr. (%)	(1,961.9)	57.2	(44.4)	16.5
Margin (%)	13.6	15.5	8.9	9.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	52,721	82,897	46,067	53,678
Equity Shares O/s (m)	1,020	1,020	1,020	1,020
EPS (Rs)	76.3	81.3	45.2	52.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	8,20,270	8,30,670	8,40,270	8,49,870
Tangibles	8,20,270	8,30,670	8,40,270	8,49,870
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,81,775	3,18,543	3,55,322	3,92,161
Tangibles	2,81,775	3,18,543	3,55,322	3,92,161
Intangibles	-	-	-	-
Net fixed assets	5,38,496	5,12,128	4,84,949	4,57,710
Tangibles	5,38,496	5,12,128	4,84,949	4,57,710
Intangibles	-	-	-	-
Capital Work In Progress	24,655	40,430	85,205	1,29,980
Goodwill	5,001	5,001	5,001	5,001
Non-Current Investments	4,297	4,297	4,297	4,297
Net Deferred tax assets	(62,394)	(73,930)	(74,148)	(74,777)
Other Non-Current Assets	2,628	2,628	2,628	2,628
Current Assets				
Investments	10,113	10,113	10,113	10,113
Inventories	59,426	84,485	80,854	81,741
Trade receivables	27,944	28,095	25,575	27,132
Cash & Bank Balance	61,659	93,336	1,01,421	1,18,060
Other Current Assets	40,165	40,165	40,165	40,165
Total Assets	7,78,404	8,24,699	8,44,228	8,80,847
Equity				
Equity Share Capital	1,020	1,020	1,020	1,020
Other Equity	3,17,127	4,00,023	4,46,091	4,99,769
Total Network	3,18,147	4,01,043	4,47,111	5,00,789
Non-Current Liabilities				
Long Term borrowings	2,93,096	2,38,096	2,18,096	1,98,096
Provisions	3,233	3,233	3,233	3,233
Other non current liabilities	1	1	1	1
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	40,645	41,176	39,126	42,015
Other current liabilities	61,620	71,572	69,389	72,136
Total Equity & Liabilities	7,78,404	8,24,699	8,44,228	8,80,847

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	72,956	-	-	-
Add. Depreciation	34,533	36,768	36,779	36,839
Add. Interest	30,933	23,904	20,529	18,729
Less Financial Other Income	391	389	437	477
Add. Other	7,517	(389)	(437)	(477)
Op. profit before WC changes	1,45,940	60,283	56,871	55,091
Net Changes-WC	(26,846)	(14,963)	1,918	3,193
Direct tax	515	(16,827)	(14,825)	(16,506)
Net cash from Op. activities	1,19,609	28,493	43,965	41,777
Capital expenditures	(8,368)	(26,175)	(54,375)	(54,375)
Interest / Dividend Income	-	-	-	-
Others	(11,521)	389	437	477
Net Cash from Invt. activities	(19,889)	(25,786)	(53,939)	(53,899)
Issue of share cap. / premium	-	-	-	-
Debt changes	(22,660)	(55,000)	(20,000)	(20,000)
Dividend paid	-	-	-	-
Interest paid	(22,735)	(23,904)	(20,529)	(18,729)
Others	(726)	(1,250)	(1,250)	(1,250)
Net cash from Fin. activities	(46,120)	(80,154)	(41,779)	(39,979)
Net change in cash	53,600	(77,447)	(51,752)	(52,100)
Free Cash Flow	1,11,028	2,318	(10,410)	(12,598)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	1,05,335	1,05,937	1,06,095	1,36,117
YoY gr. (%)	40.0	55.9	65.8	67.2
Raw Material Expenses	25,615	27,622	28,968	53,526
Gross Profit	79,720	78,315	77,127	82,591
Margin (%)	75.7	73.9	72.7	60.7
EBITDA	42,524	49,636	45,390	45,941
YoY gr. (%)	170.1	186.9	168.7	92.3
Margin (%)	40.4	46.9	42.8	33.8
Depreciation / Depletion	8,695	5,881	6,022	6,096
EBIT	33,829	43,755	39,367	39,845
Margin (%)	32.1	41.3	37.1	29.3
Net Interest	7,283	5,757	5,608	4,817
Other Income	(5)	208	337	38
Profit before Tax	28,480	37,885	34,096	35,066
Margin (%)	27.0	35.8	32.1	25.8
Total Tax	4,158	9,200	8,939	9,227
Effective tax rate (%)	14.6	24.3	26.2	26.3
Profit after Tax	24,322	28,685	25,157	25,839
Minority interest	1,775	(331)	(275)	(3)
Share Profit from Associates	-	-	-	-
Adjusted PAT	20,608	29,337	25,433	25,842
YoY gr. (%)	(883.4)	(2,69,248.6)	7,618.5	266.3
Margin (%)	19.6	27.7	24.0	19.0
Extra Ord. Income / (Exp)	1,939	(321)	-	-
Reported PAT	22,547	29,016	25,433	25,842
YoY gr. (%)	(957.1)	1,488.0	1,560.1	208.9
Margin (%)	21.4	27.4	24.0	19.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	22,547	29,016	25,433	25,842
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	76.3	81.3	45.2	52.6
CEPS	110.1	117.3	81.2	88.7
BVPS	311.9	393.2	438.3	491.0
FCF	108.9	2.3	(10.2)	(12.4)
DPS	-	-	-	-
Return Ratio(%)				
RoCE	16.7	21.2	12.3	12.8
ROIC	14.2	18.8	11.1	11.8
RoE	24.3	23.1	10.9	11.3
Balance Sheet				
Net Debt : Equity (x)	0.7	0.3	0.2	0.1
Net Working Capital (Days)	44	49	48	44
Valuation(x)				
PER	5.0	4.7	8.4	7.2
P/B	1.2	1.0	0.9	0.8
P/CEPS	3.5	3.3	4.7	4.3
EV/EBITDA	4.3	3.1	4.2	3.7
EV/Sales	1.6	1.0	1.0	0.8
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Steel sales vol (mnt)	7	8	8	8
Realisation/t-Rs	45,602	61,864	55,494	57,650
EBITDA/t-Rs	17,729	19,952	11,988	12,302

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Nov-21	BUY	535	419
2	7-Oct-21	BUY	535	408
3	11-Aug-21	BUY	500	400
4	8-Jul-21	Accumulate	500	387
5	13-May-21	Accumulate	500	457
6	29-Apr-21	Accumulate	500	444
7	22-Jan-21	BUY	400	282
8	13-Jan-21	BUY	400	294

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	2,460	2,243
2	Ambuja Cement	BUY	445	380
3	Coal India	Accumulate	164	191
4	Dalmia Bharat	Accumulate	2,290	1,991
5	Heidelberg Cement India	Reduce	220	248
6	Hindalco Industries	BUY	570	469
7	Hindustan Zinc	Reduce	288	313
8	Jindal Steel & Power	BUY	535	419
9	JK Lakshmi Cement	Hold	670	615
10	JSW Steel	Accumulate	810	674
11	NMDC	Accumulate	170	145
12	Shree Cement	Hold	28,000	28,635
13	Steel Authority of India	Accumulate	155	116
14	Tata Steel	BUY	1,835	1,287
15	The Ramco Cements	Hold	990	943
16	Ultratech Cement	BUY	8,600	7,399

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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