

13 August 2023

India | Equity research | Q1FY24 result review

Jindal Steel & Power

Metals

Capacity expansion has been slightly delayed; enablers gathering steam

Jindal Steel & Power's (JSPL) Q1FY24 EBITDA of INR 26.3bn was 6% and 16% ahead of our and consensus' estimates. Key points: 1) EBITDA/t (adj.) of INR 14,485 was ahead of our estimate of INR 12,080; 2) net debt at a 15-year low level of INR 68.1bn; 3) commissioning of 6mtpa pellet plant at Angul (in Odisha) and mining leases for Utkal C and Gare Palma IV/6 have been concluded; and 4) key facilities for Angul-II have been delayed by a quarter on average. Going ahead, we have lowered our volume estimates by 6%/8% for FY24E/FY25E due to the slight delay in the commissioning of key steel making facilities; however, we expect profitability to improve further on lower coal/iron ore price and captive coal mining. As a result, we have raised our FY24E/FY25E EBITDA by 8%/5% resulting in a revised TP of INR 810 (earlier INR 750). Maintain **BUY** on the stock.

Good performance in testing times

JSPL has reported EBITDA of INR 26.3bn (up 18% QoQ) on higher price-cost spread. Key points: 1) Blended realisation was up INR 1,088/te due to prior period exports booked at higher price; 2) export sales comprised 10% of total; 3) steelmaking cost was up 2% QoQ due to higher coking coal price; however, owing to lower iron ore/thermal coal prices, net decline was 2% QoQ; 4) overseas subsidiaries accounted for EBITDA of INR 390mn; 5) net debt declined to a 15-year low of INR 6.8bn; 6) capex of INR 19bn was mainly towards Angul project; and 7) promoters' pledge on shares has been reduced. Going ahead, we expect lower coking, thermal coal and iron ore prices to mitigate the adverse impact of lower realisation.

Key cost enablers falling in place

Management mentioned that the first 6mtpa pellet plant at Angul has been commissioned in Q1FY24. Besides, the management has executed mining leases for Gare Palma IV/6 and Utkal C coal blocks. The cumulative capacity of these blocks is 7.37mt and the management expects the mining to commence soon. We expect both pellet plant and captive mining blocks to enhance cost efficiencies. However, we note that the key steel making facilities have been delayed by at least a quarter. As a result, we have lowered our volume estimates for FY24E/FY25E by 6% to 8mt and 8% to 9.0mt, respectively. That said, we believe cost efficiencies may result in sustainable EBITDA/te at INR 14,800-15,000 through to FY25E.

Financial Summary

| Y/E March (INR mn) | FY22A | FY23A | FY24E | FY25E |
|--------------------|----------|----------|----------|----------|
| Net Revenue | 5,10,856 | 5,27,112 | 5,43,889 | 5,89,386 |
| EBITDA | 1,55,134 | 99,349 | 1,26,514 | 1,43,342 |
| EBITDA Margin (%) | 30.4 | 18.8 | 23.3 | 24.3 |
| Net Profit | 82,553 | 31,512 | 58,137 | 67,702 |
| EPS (Rs) | 80.9 | 30.9 | 57.0 | 66.4 |
| EPS % Chg YoY | 29.8 | (47.3) | 33.7 | 16.5 |
| P/E (x) | 8.2 | 15.6 | 11.7 | 10.0 |
| EV/EBITDA (x) | 5.2 | 7.9 | 5.9 | 4.9 |
| RoCE (%) | 18.3 | 11.0 | 13.1 | 13.8 |
| RoE (%) | 24.9 | 8.8 | 14.4 | 15.1 |

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Market Data

| | |
|---------------------|----------|
| Market Cap (INR) | 712bn |
| Market Cap (USD) | 8,606mn |
| Bloomberg Code | JSP IN |
| Reuters Code | JNSP.BO |
| 52-week Range (INR) | 700 /377 |
| Free Float (%) | 36.0 |
| ADTV-3M (mn) (USD) | 22.2 |

| Price Performance (%) | 3m | 6m | 12m |
|-----------------------|------|------|------|
| Absolute | 20.0 | 20.1 | 76.3 |
| Relative to Sensex | 6.5 | 8.7 | 11.6 |

| ESG Disclosure | 2021 | 2022 | Change |
|----------------|------|------|--------|
| ESG score | 49.2 | 48.6 | (0.6) |
| Environment | 24.2 | 24.2 | - |
| Social | 38.4 | 36.6 | (1.8) |
| Governance | 84.9 | 84.9 | - |

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

| Earnings Revisions (%) | FY24E | FY25E |
|------------------------|-------|-------|
| Revenue | (5.7) | (8.8) |
| EBITDA | 8.2 | 4.8 |
| EPS | 12.4 | 6.9 |

Previous Reports

17-05-2023: [Q4FY23 results review](#)

01-02-2023: [Q3FY23 results review](#)

Outlook: Cost efficiencies imply higher margins

While the implicit delay in the commissioning of key steel making capacities at Angul came as a negative surprise, we are positive on the cost efficiencies from captive coal mining and pellet plant. As a result, while we have lowered our volume by 6%/8% for FY24E/FY25E, we have raised EBITDA/t for FY24E and FY25E by 5% and 8%, respectively. Our revised TP works out to INR 810 (earlier INR 750) on an unchanged 6x FY25E EBITDA. Maintain **BUY**.

Exhibit 1: Earnings Revision

| (INR mn) | FY24E | | | FY25E | | |
|----------|----------|----------|-------|----------|----------|-------|
| | New | Old | % Chg | New | Old | % Chg |
| Sales | 5,43,889 | 5,76,924 | (5.7) | 5,89,386 | 6,46,467 | (8.8) |
| EBITDA | 1,26,514 | 1,16,873 | 8.2 | 1,43,342 | 1,36,786 | 4.8 |
| PAT | 58,137 | 51,706 | 12.4 | 67,702 | 63,329 | 6.9 |

Source: I-Sec research, Company data

Q1FY24 Key concall highlights

- Management mentioned that 6mtpa pellet plant has been commissioned at Angul. Besides, mining leases for Utkal C and Gare Palma IV/6 have been executed.
- Share of exports in overall mix was 10%, at the same level QoQ.
- Domestic realisation remained soft in Q1 and at current levels, realisation is further down 5% QoQ. Export realisation was at a premium of 8-10% over domestic.
- Higher coking coal price led to an escalation of 2% in raw material cost; however, lower iron ore/thermal coal price ensured cost benefit of 2%.
- Management mentioned EBITDA of overseas subsidiaries stood at INR 390mn.
- Cashflow bridge: Management mentioned the cashflow bridge for Q1FY24 as follows: Cash at the beginning – INR 47bn; working capital build-up – INR 4bn, cashflow from operations post working capital build-up - INR 22.5bn, capex at Angul – INR 19bn, repayment of debt – INR 23bn, re-financing of existing facilities – INR 10.74bn. Cash balance– INR 38bn.
- Consolidated net debt at INR 68.1bn with net debt/EBITDA at a comfortable 0.75x.
- Management mentioned that the delay in capacity expansion is due to the delay in obtaining approvals.
- Management expects that along with DRI-II at Angul, one of the blast furnaces is likely to come on stream faster.
- Management mentioned it is evaluating further downstream options at Angul at the moment.

Exhibit 2: Jindal Steel standalone Q1FY24 result review

| Standalone (INR mn) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | % Chg QoQ | % Chg YoY |
|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------|-----------|
| Net sales | 1,28,485 | 1,31,071 | 1,18,323 | 1,33,923 | 1,23,106 | (8.1) | (4.2) |
| Raw Material Consumed | 70,682 | 53,250 | 52,699 | 67,629 | 61,371 | (9.3) | (13.2) |
| Stock Adjustment | (17,402) | 15,171 | 1,446 | 335 | (5,176) | (106.5) | (70.3) |
| Gross Margin | 75,206 | 62,650 | 64,178 | 65,959 | 66,911 | (1.4) | (11.0) |
| Gross Margin (%) | 58.5% | 47.8% | 54.2% | 49.3% | 54.4% | | |
| Employee cost | 2,025 | 2,228 | 2,231 | 2,258 | 2,106 | 7.2 | 4.0 |
| Other expenditure | 40,072 | 42,044 | 39,503 | 42,300 | 38,272 | 10.5 | (4.5) |
| EBITDA | 33,108 | 18,377 | 22,445 | 21,402 | 26,533 | (19.3) | (19.9) |
| EBITDA (adj.) | 34,818 | 22,487 | 26,565 | 22,222 | 26,913 | (17.4) | (22.7) |
| Margin (%) | 25.8% | 14.0% | 19.0% | 16.0% | 21.6% | | |
| Other Income | 208 | 81 | 97 | 103 | 140 | (26.1) | (32.8) |
| Depreciation | 5,395 | 5,445 | 5,443 | 5,376 | 5,399 | (0.4) | 0.1 |
| EBIT | 27,921 | 13,013 | 17,098 | 16,129 | 21,274 | (24.2) | (23.8) |
| Interest | 2,579 | 3,198 | 3,435 | 3,646 | 2,579 | 41.4 | (0.0) |
| PBT | 25,342 | 9,816 | 13,664 | 12,483 | 18,696 | | |
| Tax expense: | 17,158 | (2,092) | (13,740) | 3,126 | 4,701 | (33.5) | (72.6) |
| PAT | 8,184 | 11,908 | 27,403 | 9,356 | 13,995 | (33.1) | 71.0 |
| Adj.PAT | 66,231 | (4,732) | (45,123) | 7,892 | 13,995 | (43.6) | (78.9) |

Source: I-Sec research, Company data

Exhibit 3: Jindal Steel consolidated Q1FY24 result review

| Consolidated (INR mn) | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | % Chg QoQ | % Chg YoY |
|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------|-----------|
| Net sales | 1,30,454 | 1,35,214 | 1,24,524 | 1,36,919 | 1,25,883 | (8.1) | (3.5) |
| Raw Material Consumed | 71,227 | 52,756 | 56,747 | 67,694 | 59,237 | (12.5) | (16.8) |
| Stock Adjustment | (17,765) | 14,552 | 1,316 | 451 | (5,503) | (1,320.1) | (69.0) |
| Gross Margin | 76,992 | 67,907 | 66,462 | 68,775 | 72,149 | 4.9 | (6.3) |
| Gross Margin (%) | 59.0% | 50.2% | 53.4% | 50.2% | 57.3% | | |
| Employee cost | 2,614 | 2,837 | 2,968 | 2,923 | 2,919 | (0.1) | 11.6 |
| Other expenditure | 39,990 | 45,756 | 39,719 | 43,979 | 42,950 | (2.3) | 7.4 |
| EBITDA | 34,387 | 19,314 | 23,775 | 21,873 | 26,280 | 20.2 | (23.6) |
| EBITDA (adj.) | 36,097 | 23,424 | 27,895 | 22,693 | 26,660 | 17.5 | (26.1) |
| Margin (%) | 26.4% | 14.3% | 19.1% | 16.0% | 20.9% | | |
| Other Income | 238 | 5 | 171 | 158 | 553 | 250.8 | 132.7 |
| Depreciation | 5,962 | 6,143 | 6,077 | 8,729 | 5,875 | (32.7) | (1.5) |
| EBIT | 28,663 | 13,176 | 17,869 | 13,302 | 20,958 | 57.6 | (26.9) |
| Interest | 3,638 | 3,648 | 3,461 | 3,712 | 3,291 | (11.3) | (9.5) |
| PBT | 25,025 | 9,528 | 14,408 | 9,590 | 17,667 | 84.2 | (29.4) |
| Tax expense: | 5,734 | (1,650) | 5,441 | 3,398 | 748 | (78.0) | (87.0) |
| PAT | 19,291 | 11,178 | 8,967 | 6,192 | 16,920 | 173.3 | (12.3) |
| Extraordinary items | 609 | (8,985) | (3,784) | (1,535) | - | (100.0) | (100.0) |
| Minority Interest | (199) | (196) | (4) | 31 | 49 | 56.8 | (124.5) |
| Share of Associates | (0) | (0) | (1) | (0) | (2) | 466.7 | 325.0 |
| Adj. PAT | 19,701 | 1,997 | 5,179 | 4,688 | 16,967 | 261.9 | (13.9) |

Source: I-Sec research, Company data

Exhibit 4: Jindal Steel - sales volume Q1FY24 result review

| | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | % Chg QoQ | % Chg YoY |
|-------------------|---------------|---------------|---------------|---------------|---------------|-----------|-----------|
| Sales (te) | | | | | | | |
| Steel products | 17,40,000 | 20,10,000 | 19,00,000 | 20,30,000 | 18,40,000 | (9.4) | 5.7 |
| Pellets | 30,000 | 1,10,000 | 50,000 | 40,000 | 10,000 | (75.0) | (66.7) |
| EBITDA/te | 21,390 | 11,193 | 12,245 | 10,730 | 14,627 | 36.3 | (31.6) |

Source: I-Sec research, Company data

Exhibit 5: Jindal Steel - offshore mining Q1FY24 result review

| | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | % Chg QoQ | % Chg YoY |
|-----------------------------------|--------------|--------------|------------|--------------|------------|---------------|---------------|
| Mozambique | | | | | | | |
| Production (mnte) | 0.9 | 1.2 | 1.3 | 1.0 | 1.1 | 14.3 | 20.4 |
| Sales (mnte) | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | (12.3) | |
| EBITDA (USD mn) | 43 | 15 | 5 | 9 | 8 | (16.7) | (82.6) |
| EBITDA/te (USD/te) | 218 | 77 | 24 | 56 | 30 | (46.0) | (86.3) |
| South Africa | | | | | | | |
| Production (kte) | 146.0 | 81.0 | 118.0 | 115.0 | 116.0 | 0.9 | (20.5) |
| Sales (kte) | 74.0 | 31.0 | 101.0 | 90.0 | 87.0 | (3.3) | |
| EBITDA (USD mn) | 11 | 13 | 4 | 3 | 3 | (16.7) | (77.3) |
| EBITDA/te (USD/te) | 149 | 419 | 40 | 33 | 29 | (13.8) | (80.7) |
| Australia | | | | | | | |
| Production (kte) | 138.0 | 150.0 | 149.0 | 157.0 | 132.0 | (15.9) | |
| Sales (kte) | 79.0 | 79.0 | 159.0 | 123.0 | 91.0 | (26.0) | 15.2 |
| EBITDA (USD mn) | 3 | 8 | (6) | 1 | 2 | 50.0 | (50.0) |
| EBITDA/te (USD/te) | 38 | 101 | (38) | 8 | 16 | 102.7 | (56.6) |
| Blended EBITDA/te (INR/te) | 4,247 | 2,876 | 247 | 1,070 | 946 | (11.5) | (77.7) |

Source: I-Sec research, Company data

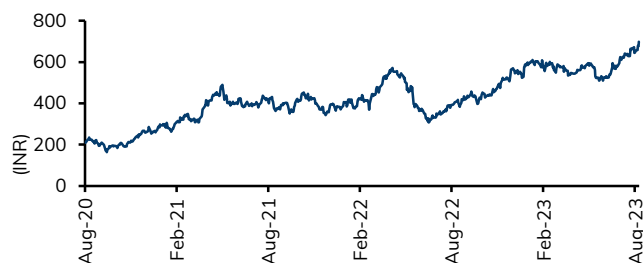
Key downside risks:

- 1) Further compression in spreads; 2) sustained loss at overseas subsidiaries; 3) delay in commissioning of new capacity at Angul.

Exhibit 6: Shareholding pattern

| % | Dec'22 | Mar'23 | Jun'23 |
|-------------------------|--------|--------|--------|
| Promoters | 61.2 | 61.2 | 61.2 |
| Institutional investors | 27.3 | 27.3 | 27.4 |
| MFs and others | 10.6 | 10.6 | 111.5 |
| FIs/Banks | 3.4 | 3.2 | 2.8 |
| FIIIs | 13.3 | 13.5 | 13.1 |
| Others | 11.5 | 11.5 | 11.4 |

Source: Bloomberg

Exhibit 7: Price chart

Source: Bloomberg

Financial Summary

Exhibit 8: Profit & Loss

(INR mn, year ending March)

| | FY22A | FY23A | FY24E | FY25E |
|--|-----------------|-----------------|-----------------|-----------------|
| Net Sales | 5,10,856 | 5,27,112 | 5,43,889 | 5,89,386 |
| Operating Expenses | 3,55,721 | 4,27,763 | 4,17,376 | 4,46,043 |
| EBITDA | 1,55,134 | 99,349 | 1,26,514 | 1,43,342 |
| EBITDA Margin (%) | 30.4 | 18.8 | 23.3 | 24.3 |
| Depreciation & Amortization | 20,968 | 26,910 | 27,985 | 30,503 |
| EBIT | 1,34,167 | 72,439 | 98,529 | 1,12,840 |
| Interest expenditure | 18,877 | 14,459 | 11,967 | 11,967 |
| Other Non-operating Income | 504 | 571 | 599 | 629 |
| Recurring PBT | 1,15,793 | 58,551 | 87,161 | 1,01,502 |
| Profit / (Loss) from Associates | - | - | - | - |
| Less: Taxes | 29,245 | 12,923 | 26,148 | 30,451 |
| PAT | 86,548 | 45,628 | 61,013 | 71,051 |
| Less: Minority Interest | (67) | 421 | 2,876 | 3,350 |
| Extraordinaries (Net) | (4,062) | (13,695) | - | - |
| Net Income (Reported) | 82,485 | 31,934 | 61,013 | 71,051 |
| Net Income (Adjusted) | 82,553 | 31,512 | 58,137 | 67,702 |

Source Company data, I-Sec research

Exhibit 9: Balance sheet

(INR mn, year ending March)

| | FY22A | FY23A | FY24E | FY25E |
|--|-----------------|-----------------|-----------------|-----------------|
| Total Current Assets | 2,66,089 | 1,54,757 | 1,88,165 | 2,35,623 |
| of which cash & cash eqv. | 40,006 | 54,817 | 87,729 | 1,31,546 |
| Total Current Liabilities & Provisions | 1,82,764 | 1,02,373 | 1,04,700 | 1,06,993 |
| Net Current Assets | 83,324 | 52,384 | 83,465 | 1,28,629 |
| Investments | 1,378 | 1,425 | 1,425 | 1,425 |
| Net Fixed Assets | 4,22,440 | 4,08,035 | 4,80,051 | 5,00,548 |
| ROU Assets | - | - | - | - |
| Capital Work-in-Progress | 17,362 | 71,059 | 24,059 | 24,059 |
| Total Intangible Assets | 40,460 | 35,023 | 35,023 | 35,023 |
| Other assets | 18,052 | 22,303 | 22,303 | 22,303 |
| Deferred Tax assets | - | - | - | - |
| Total Assets | 5,83,671 | 5,91,899 | 6,47,996 | 7,13,658 |
| Liabilities | | | | |
| Borrowings | 1,28,620 | 1,24,709 | 1,24,709 | 1,24,709 |
| Deferred Tax Liability | 72,762 | 59,366 | 59,366 | 59,366 |
| provisions | 4,219 | 3,497 | 3,497 | 3,497 |
| other Liabilities | 7,118 | 14,137 | 14,137 | 14,137 |
| Equity Share Capital | 1,011 | 1,005 | 1,005 | 1,005 |
| Reserves & Surplus | 3,55,236 | 3,86,061 | 4,42,157 | 5,07,819 |
| Total Net Worth | 3,56,247 | 3,87,066 | 4,43,162 | 5,08,824 |
| Minority Interest | 14,705 | 3,125 | 3,125 | 3,125 |
| Total Liabilities | 5,83,671 | 5,91,899 | 6,47,996 | 7,13,658 |

Source Company data, I-Sec research

Exhibit 10: Quarterly trend

(INR mn, year ending March)

| | Sep-22 | Dec-22 | Mar-23 | Jun-23 |
|---------------------|----------|----------|----------|----------|
| Net Sales | 1,35,214 | 1,24,524 | 1,36,919 | 1,25,883 |
| % growth (YOY) | (0.7) | (0.6) | (4.5) | (3.5) |
| EBITDA | 19,314 | 23,775 | 21,873 | 26,280 |
| Margin % | 14.3 | 19.1 | 16.0 | 20.9 |
| Other Income | 5 | 171 | 158 | 553 |
| Extraordinaries | (8,985) | (3,784) | (1,535) | - |
| Adjusted Net Profit | 1,997 | 5,179 | 4,688 | 16,967 |

Source Company data, I-Sec research

Exhibit 11: Cashflow statement

(INR mn, year ending March)

| | FY22A | FY23A | FY24E | FY25E |
|--|-----------------|---------------|---------------|-----------------|
| Operating Cashflow | 1,60,478 | 72,755 | 99,919 | 1,08,824 |
| Working Capital Changes | (12,140) | (25,919) | 1,831 | (1,348) |
| Capital Commitments | (29,445) | (64,485) | (53,000) | (51,000) |
| Free Cashflow | 1,31,033 | 8,270 | 46,919 | 57,824 |
| Other investing cashflow | 6,131 | 24,300 | - | - |
| Cashflow from Investing Activities | (23,313) | (40,185) | (53,000) | (51,000) |
| Issue of Share Capital | 18 | - | - | - |
| Interest Cost | (26,064) | (15,391) | (11,967) | (11,967) |
| Inc (Dec) in Borrowings | (1,19,182) | (5,552) | - | - |
| Dividend paid | - | (2,046) | (2,040) | (2,040) |
| Others | (5,968) | (2,015) | - | - |
| Cash flow from Financing Activities | (1,51,196) | (25,005) | (14,007) | (14,007) |
| Chg. in Cash & Bank balance | (14,031) | 7,566 | 32,912 | 43,817 |
| Closing cash & balance | (14,031) | 7,566 | 32,912 | 43,817 |

Source Company data, I-Sec research

Exhibit 12: Key ratios

(Year ending March)

| | FY22A | FY23A | FY24E | FY25E |
|-----------------------------|-------|--------|-------|-------|
| Per Share Data (INR) | | | | |
| Reported EPS | 84.9 | 44.7 | 59.8 | 69.7 |
| Adjusted EPS (Diluted) | 80.9 | 30.9 | 57.0 | 66.4 |
| Cash EPS | 101.5 | 57.3 | 84.4 | 96.3 |
| Dividend per share (DPS) | 3.0 | 2.0 | 2.0 | 2.0 |
| Book Value per share (BV) | 349.3 | 379.5 | 434.5 | 498.8 |
| Dividend Payout (%) | 3.5 | 4.5 | 3.3 | 2.9 |
| Growth (%) | | | | |
| Net Sales | 31.0 | 3.2 | 3.2 | 8.4 |
| EBITDA | 7.4 | (36.0) | 27.3 | 13.3 |
| EPS (INR) | 29.8 | (47.3) | 33.7 | 16.5 |
| Valuation Ratios (x) | | | | |
| P/E | 8.2 | 15.6 | 11.7 | 10.0 |
| P/CEPS | 6.9 | 12.2 | 8.3 | 7.3 |
| P/BV | 2.0 | 1.8 | 1.6 | 1.4 |
| EV / EBITDA | 5.2 | 7.9 | 5.9 | 4.9 |
| Dividend Yield (%) | 0.4 | 0.3 | 0.3 | 0.3 |
| Operating Ratios | | | | |
| Gross Profit Margins (%) | 59.9 | 53.1 | 55.0 | 56.5 |
| EBITDA Margins (%) | 30.4 | 18.8 | 23.3 | 24.3 |
| Effective Tax Rate (%) | 25.3 | 22.1 | 30.0 | 30.0 |
| Net Profit Margins (%) | 16.9 | 8.7 | 11.2 | 12.1 |
| Net Debt / Equity (x) | 0.2 | 0.2 | 0.1 | 0.0 |
| Net Debt / EBITDA (x) | 0.6 | 0.7 | 0.3 | (0.1) |
| Fixed Asset Turnover (x) | - | - | - | - |
| Inventory Turnover Days | 66 | 45 | 40 | 40 |
| Receivables Days | 11 | 7 | 8 | 8 |
| Payables Days | 48 | 36 | 34 | 34 |
| Profitability Ratios | | | | |
| RoCE (%) | 18.3 | 11.0 | 13.1 | 13.8 |
| RoE (%) | 24.9 | 8.8 | 14.4 | 15.1 |
| RoIC (%) | 19.8 | 12.4 | 14.8 | 16.4 |

Source Company data, I-Sec research

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ANALYST CERTIFICATION

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