

01 February 2024

India | Equity Research | Q3FY24 results review

## Jindal Steel & Power

Metals

### Marching ahead

Jindal Steel & Power's (JSPL) EBITDA surpassed our and consensus estimates by 19% each owing to lower-than-expected cost. Key points: 1) Positive price-cost spread aided EBITDA. 2) Steel sales volume was down 10% QoQ owing to lower exports and no external pellet sales. 3) Overseas subsidiaries posted profit of INR 600mn at EBITDA level; and 4) Net debt rose by INR 18bn QoQ mainly due to working capital build-up. Going ahead, we expect cost efficiencies from captive coal, external pellets sales and higher volumes to drive earnings growth. Taking cognizance of a potential upside from commissioning of the 6mtpa Hot Strip mill and increased external pellet sales, we raise our valuation multiple to 6.5x (earlier 6x), resulting in a revised TP of INR 980 (earlier INR 850). Maintain **BUY**.

### Performance surpasses estimates

JSPL's Q3FY24 EBITDA of INR 28.4bn (up 19.6% YoY; 24.4% QoQ) was 19% ahead of our and consensus estimates. Key points: 1) Sales volume was down 10% QoQ (4.7% YoY) due to lower export opportunities. Exports constituted a mere 3% of overall volume. 2) EBITDA/te (adj.) was at INR 15,000, (up 24.4% QoQ); 3) Positive price-cost spread, as realisation rose by 4% QoQ while steel-making costs rose 2% QoQ, primarily due to higher coking coal cost – up USD32/t QoQ to USD281/t. 4) Overseas subsidiaries delivered profit of INR 600mn at EBITDA-level, mainly due to higher coking coal price. 5) Capex for 9MFY24 was at nearly INR 60bn, mainly towards Angul expansion 6) Net debt rose by INR 18bn QoQ to INR 91.1bn, mainly due to working capital build-up of INR 16.6bn. Management expects sales volume to improve in the domestic market and cost efficiencies to sustain owing to ramp up of captive mining at Gare Palma IV/6 and Utkal 'C' block.

### Several sweeteners in store

We estimate JSPL's FY26 EBITDA at INR 162.7bn (up 50% compared to FY24E) and EBITDA/t at INR 16,230 as a result of sustained cost efficiencies from captive coal mining. However, we perceive upside risks to our estimates arising from: 1) external pellet sales from the newly commissioned 6mtpa plant; 2) operationalisation of Utkal B1 and B2 blocks; 3) additional finished steel volume from 6mtpa HSM commissioned recently; and 4) rolling arrangement for 2.4mtpa BF-3 of RINL.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	5,27,112	5,04,724	5,03,245	5,90,930
EBITDA	99,349	1,08,127	1,22,935	1,62,721
EBITDA Margin (%)	18.8	21.4	24.4	27.5
Net Profit	31,512	54,464	61,119	87,552
EPS (INR)	30.9	53.4	59.9	85.8
EPS % Chg YoY	(47.3)	19.7	12.2	43.1
P/E (x)	16.9	14.1	12.6	8.8
EV/EBITDA (x)	8.5	7.7	6.7	5.0
RoCE (%)	11.0	11.7	12.0	14.9
RoE (%)	8.8	13.6	13.7	17.2

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#### Market Data

Market Cap (INR)	772bn
Market Cap (USD)	9,300mn
Bloomberg Code	JSP IN
Reuters Code	JNSP.BO
52-week Range (INR)	768 /503
Free Float (%)	36.0
ADTV-3M (mn) (USD)	19.6

Price Performance (%)	3m	6m	12m
Absolute	19.5	13.2	29.7
Relative to Sensex	7.1	5.4	9.3

#### Previous Reports

22-02-2024: [Company update](#)

01-11-2023: [Q2FY24 results review](#)

## Outlook: Further upside in store; maintain BUY

We expect JSPL to benefit from cost efficiencies, arising from captive mining at Gare Palma IV/6 and Utkal 'C' block. While our sales volume estimates for FY25/FY26 are at 8.25mt/9.75mt, we perceive upside risk to our volume estimates owing to additional rolling capacity available with the company, pursuant to commissioning of the 6mtpa Hot Strip mill and recent tie-up RINL for 2.4mtpa BF-3. We raise our EV/EBITDA multiple to 6.5x (earlier 6x) to factor in the potential upsides. As a result, our revised TP works out to INR 980 (earlier INR 850) on FY26E EBITDA. Maintain **BUY**.

### Key downside risks:

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

### Q3FY24 conference call: Key highlights

- Lower exports during the quarter. 3% of overall volume
- Unplanned shutdown in Q3FY24 – breakdown of SMS at Raigarh plant.
- Q3FY24 realisation: Improvement of 4% overall. However, softness in Dec'23 led to a decline of 2% at exit.
- Q3FY24 cost: SMS cost up 2% QoQ due to higher coking coal price – up USD32/t QoQ. Coking coal cost increased from USD249/t in Q2FY24 to USD281/t in Q3FY24. SMS – 2% INCREASE higher coking coal price – 32/t on consumption basis. Expect coking coal cost to be up USD10/t QoQ in Q4FY24.
- Overseas subsidiaries: Positive EBITDA of INR 600mn due to higher coking coal prices.
- Cash flow bridge: Cash at the beginning: INR 55.6bn; EBITDA of INR 28bn; working capital build-up of INR 16.6bn; cash flow from operations: INR 10.4bn; cash flow from investing: INR 23.9bn, of which capex was at INR 23.6bn. Cash flow from financing at INR 7.8bn due to schedule debt repayment. Cash balance at the end: INR 34.4bn.
- Working build-up in Q3FY24 was owing to coking coal inventory: up INR 8bn, receivable in pipeline up INR 5bn and finished steel inventory build-up.
- Debt: Gross debt of INR 125.5bn; net debt of INR 91.2bn.
- No meaningful external pellet sales. 6mtpa pellet plant is still under stabilization
- Captive coal mining: Gare Palma IV/6 crossed 1mnte of production. Utkal C is ramping up production. Close to getting the permission for the other two mines. Major clearances are in place.
- First coil from newly commissioned HSM has come up at desired specifications.
- WC management this year has been far tighter. The company has discharged some of the more expensive debt. Further JSPML interest has been restated. Hence, in this quarter, there is an impact of INR 400mn on standalone interest cost.
- Capex: For 9MFY24, it was about INR 60bn. FY24 capex likely to be in the range of guidance already given.
- All long lead items have been ordered for the 6mtpa expansion project.
- Monnet power plant likely to be commissioned in Q2FY25.
- HR coil from the Angul plant will be sold to construction sector, re-rollers/convertors and pipe/tubes segment.

### Exhibit 1: JSPL Q3FY24 standalone performance review

Standalone (INR mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	% Chg QoQ	% Chg YoY
<b>Net sales</b>	<b>1,18,323</b>	<b>1,33,923</b>	<b>1,23,106</b>	<b>1,20,818</b>	<b>1,15,159</b>	(1.9)	(2.7)
Raw Material Consumed	52,699	67,629	61,371	51,243	56,021	(16.5)	6.3
Stock Adjustment	1,446	335	(5,176)	8,837	(6,357)	(158.6)	(539.8)
Gross Margin	64,178	65,959	66,911	60,738	65,495	10.2	2.1
Gross Margin (%)	54.2%	49.3%	54.4%	50.3%	56.9%		4.9
Employee cost	2,231	2,258	2,106	2,271	2,218	(7.3)	(0.6)
Other expenditure	39,503	42,300	38,272	35,347	36,088	8.3	(8.6)
<b>EBITDA</b>	<b>22,445</b>	<b>21,402</b>	<b>26,533</b>	<b>23,121</b>	<b>27,189</b>	14.8	21.1
<b>EBITDA (adj.)</b>	<b>26,565</b>	<b>22,222</b>	<b>26,913</b>	<b>23,241</b>	<b>26,499</b>	15.8	(0.2)
Margin (%)	19.0%	16.0%	21.6%	19.1%	23.6%		24.5
Other Income	97	103	140	259	295	(46.0)	205.5
Depreciation	5,443	5,376	5,399	5,545	5,595	(2.6)	2.8
<b>EBIT</b>	<b>17,098</b>	<b>16,129</b>	<b>21,274</b>	<b>17,835</b>	<b>21,889</b>	19.3	28.0
Interest	3,435	3,646	2,579	2,579	1,952	(0.0)	(43.2)
<b>PBT</b>	<b>13,664</b>	<b>12,483</b>	<b>18,696</b>	<b>15,256</b>	<b>19,937</b>		45.9
Tax expense:	(13,740)	3,126	4,701	4,170	5,101	12.7	(137.1)
<b>PAT</b>	<b>27,403</b>	<b>9,356</b>	<b>13,995</b>	<b>11,086</b>	<b>14,837</b>	26.2	(45.9)
<b>Adj. PAT</b>	<b>(45,123)</b>	<b>7,892</b>	<b>13,995</b>	<b>11,086</b>	<b>14,837</b>	26.2	(132.9)

Source: I-Sec research, Company data

### Exhibit 2: JSPL Q3FY24 consolidated performance review

Consolidated (Rs.mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	% Chg QoQ	% Chg YoY
<b>Net sales</b>	<b>1,24,524</b>	<b>1,36,919</b>	<b>1,25,883</b>	<b>1,22,502</b>	<b>1,17,013</b>	(4.5)	(6.0)
Raw Material Consumed	56,747	67,694	59,237	48,673	52,051	6.9	(8.3)
Stock Adjustment	1,316	451	(5,503)	9,390	(6,256)	(166.6)	(575.4)
Gross Margin	66,462	68,775	72,149	64,438	71,218	10.5	7.2
Gross Margin (%)	53.4%	50.2%	57.3%	52.6%	60.9%		
Employee cost	2,968	2,923	2,919	3,096	3,254	5.1	9.6
Other expenditure	39,719	43,979	42,950	38,485	39,539	2.7	(0.5)
<b>EBITDA</b>	<b>23,775</b>	<b>21,873</b>	<b>26,280</b>	<b>22,857</b>	<b>28,426</b>	24.4	19.6
<b>EBITDA (adj.)</b>	<b>25,485</b>	<b>25,983</b>	<b>30,400</b>	<b>23,677</b>	<b>28,806</b>	21.7	13.0
Margin (%)	19.1%	16.0%	20.9%	18.7%	24.3%		
Other Income	171	158	553	319	351	10.0	105.6
Depreciation	6,077	8,729	5,875	6,037	6,357	5.3	4.6
<b>EBIT</b>	<b>17,869</b>	<b>13,302</b>	<b>20,958</b>	<b>17,139</b>	<b>22,420</b>	30.8	25.5
Interest	3,461	3,712	3,291	3,294	3,151	(4.3)	(9.0)
<b>PBT</b>	<b>14,408</b>	<b>9,590</b>	<b>17,667</b>	<b>13,845</b>	<b>19,268</b>	39.2	33.7
Tax expense:	5,441	3,398	748	(58)	(10)	(82.2)	(100.2)
<b>PAT</b>	<b>8,967</b>	<b>6,192</b>	<b>16,920</b>	<b>13,904</b>	<b>19,279</b>	38.7	115.0
Extraordinary items	(3,784)	(1,535)	-	-	-	#DIV/0!	(100.0)
Minority Interest	(4)	31	49	23	(3)	(114.5)	(17.5)
Share of Associates	(1)	(0)	(2)	(3)	1	(148.0)	(300.0)
<b>Adj. PAT</b>	<b>5,179</b>	<b>4,688</b>	<b>16,967</b>	<b>13,924</b>	<b>19,277</b>	38.4	272.2

Source: I-Sec research, Company data

### Exhibit 3: JSPL Q3FY24 operational performance review

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	% Chg QoQ	% Chg YoY
<b>Sales (te)</b>							
Steel products	19,00,000	20,30,000	18,40,000	20,10,000	18,10,000	(10.0)	(4.7)
Pellets	50,000	40,000	10,000	80,000	-	(100.0)	(100.0)
<b>EBITDA/te</b>	<b>12,245</b>	<b>10,730</b>	<b>14,485</b>	<b>11,160</b>	<b>14,999</b>	34.4	22.5

Source: I-Sec research, Company data

**Exhibit 4: JSPL Q3FY24 segmental performance review**

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	% Chg QoQ	% Chg YoY
<b>Mozambique</b>							
Production (mnte)	1.3	1.0	1.1	1.1	1.2	3.6	(8.7)
Sales (mnte)	0.2	0.2	0.1	0.2	0.2	(9.1)	
EBITDA (USD mn)	5	9	14	7			
EBITDA/te (USD/te)	24	56	99	29		-	
<b>South Africa</b>							
Production (kte)	118.0	115.0	116.0	123.0	82.0	(33.3)	(30.5)
Sales (kte)	101.0	90.0	87.0	83.0	48.0	(42.2)	
EBITDA (USD mn)	4	3	4	2			
EBITDA/te (USD/te)	40	33	45	27			
<b>Australia</b>							
Production (kte)	149.0	157.0	132.0	101.0	106.0	5.0	
Sales (kte)	159.0	123.0	91.0	162.0	110.0	(32.1)	(30.8)
EBITDA (USD mn)	(6)	1	(9)	(12)			
EBITDA/te (USD/te)	(38)	8	(98)	(71)			
<b>Blended EBITDA/te (INR/te)</b>	<b>247</b>	<b>1,070</b>	<b>743</b>	<b>(194)</b>	<b>1,583</b>	<b>NM</b>	<b>NM</b>

Source: I-Sec research, Company data

**Exhibit 5: Shareholding pattern**

%	Mar'23	Jun'23	Dec'23
Promoters	61.2	61.2	61.2
Institutional investors	27.3	27.4	28.8
MFs and others	10.6	11.5	12.1
FIs/Banks	3.2	2.8	2.9
FIIIs	13.5	13.1	13.8
Others	11.5	11.4	10.0

Source: Bloomberg

**Exhibit 6: Price chart**

Source: Bloomberg

## Financial Summary

### Exhibit 7: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>5,27,112</b>	<b>5,04,724</b>	<b>5,03,245</b>	<b>5,90,930</b>
Operating Expenses	4,27,763	3,96,597	3,80,310	4,28,208
<b>EBITDA</b>	<b>99,349</b>	<b>1,08,127</b>	<b>1,22,935</b>	<b>1,62,721</b>
EBITDA Margin (%)	18.8	21.4	24.4	27.5
Depreciation & Amortization	26,910	25,624	28,227	31,421
EBIT	72,439	82,503	94,708	1,31,301
Interest expenditure	14,459	11,967	11,967	11,967
Other Non-operating Income	571	2,282	2,396	2,516
<b>Recurring PBT</b>	<b>58,551</b>	<b>72,819</b>	<b>85,137</b>	<b>1,21,850</b>
<b>Profit / (Loss) from Associates</b>	-	-	-	-
Less: Taxes	12,923	18,205	23,838	34,118
PAT	45,628	54,614	61,299	87,732
Less: Minority Interest	421	150	180	180
Extraordinaries (Net)	(13,695)	-	-	-
<b>Net Income (Reported)</b>	<b>31,934</b>	<b>54,614</b>	<b>61,299</b>	<b>87,732</b>
<b>Net Income (Adjusted)</b>	<b>31,512</b>	<b>54,464</b>	<b>61,119</b>	<b>87,552</b>

Source Company data, I-Sec research

### Exhibit 8: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	1,54,757	1,52,746	1,51,585	1,77,403
of which cash & cash eqv.	54,817	63,457	66,628	86,176
Total Current Liabilities & Provisions	1,02,373	95,314	91,847	95,733
<b>Net Current Assets</b>	<b>52,384</b>	<b>57,432</b>	<b>59,737</b>	<b>81,670</b>
Investments	1,425	1,425	1,425	1,425
Net Fixed Assets	4,08,035	4,82,411	5,39,184	6,02,763
ROU Assets	-	-	-	-
Capital Work-in-Progress	71,059	44,059	44,059	44,059
Total Intangible Assets	35,023	35,023	35,023	35,023
Other assets	22,303	22,303	22,303	22,303
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>5,91,899</b>	<b>6,44,323</b>	<b>7,03,402</b>	<b>7,88,914</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>1,24,709</b>	<b>1,24,709</b>	<b>1,24,709</b>	<b>1,24,709</b>
<b>Deferred Tax Liability</b>	<b>59,366</b>	<b>59,366</b>	<b>59,366</b>	<b>59,366</b>
provisions	3,497	3,497	3,497	3,497
other Liabilities	14,137	14,137	14,137	14,137
Equity Share Capital	1,005	1,005	1,005	1,005
Reserves & Surplus	3,86,061	4,38,485	4,97,563	5,83,075
<b>Total Net Worth</b>	<b>3,87,066</b>	<b>4,39,490</b>	<b>4,98,568</b>	<b>5,84,080</b>
Minority Interest	3,125	3,125	3,125	3,125
<b>Total Liabilities</b>	<b>5,91,899</b>	<b>6,44,323</b>	<b>7,03,402</b>	<b>7,88,914</b>

Source Company data, I-Sec research

### Exhibit 9: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net Sales	1,36,919	1,25,883	1,22,502	1,17,013
% growth (YOY)	(4.5)	(3.5)	(9.4)	(6.0)
EBITDA	21,873	26,280	22,857	28,426
Margin %	16.0	20.9	18.7	24.3
Other Income	158	553	319	351
Extraordinaries	(1,535)	-	-	-
<b>Adjusted Net Profit</b>	<b>4,688</b>	<b>16,967</b>	<b>13,924</b>	<b>19,277</b>

Source Company data, I-Sec research

### Exhibit 10: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Operating Cashflow</b>	<b>72,755</b>	<b>95,647</b>	<b>1,02,178</b>	<b>1,28,555</b>
Working Capital Changes	(25,919)	3,592	866	(2,385)
Capital Commitments	(64,485)	(73,000)	(85,000)	(95,000)
<b>Free Cashflow</b>	<b>8,270</b>	<b>22,647</b>	<b>17,178</b>	<b>33,555</b>
<b>Other investing cashflow</b>	<b>24,300</b>	-	-	-
Cashflow from Investing Activities	(40,185)	(73,000)	(85,000)	(95,000)
Issue of Share Capital	-	-	-	-
Interest Cost	(15,391)	(11,967)	(11,967)	(11,967)
Inc (Dec) in Borrowings	(5,552)	-	-	-
Dividend paid	(2,046)	(2,040)	(2,040)	(2,040)
Others	(2,015)	-	-	-
Cash flow from Financing Activities	(25,005)	(14,007)	(14,007)	(14,007)
<b>Chg. in Cash &amp; Bank balance</b>	<b>7,566</b>	<b>8,640</b>	<b>3,172</b>	<b>19,548</b>
Closing cash & balance	7,566	8,640	3,172	19,548

Source Company data, I-Sec research

### Exhibit 11: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	44.7	53.5	60.1	86.0
Adjusted EPS (Diluted)	30.9	53.4	59.9	85.8
Cash EPS	57.3	78.5	87.6	116.6
Dividend per share (DPS)	2.0	2.0	2.0	2.0
Book Value per share (BV)	379.5	430.9	488.8	572.6
Dividend Payout (%)	4.5	3.7	3.3	2.3
<b>Growth (%)</b>				
Net Sales	3.2	(4.2)	(0.3)	17.4
EBITDA	(36.0)	8.8	13.7	32.4
EPS (INR)	(47.3)	19.7	12.2	43.1
<b>Valuation Ratios (x)</b>				
P/E	16.9	14.1	12.6	8.8
P/CEPS	13.2	9.6	8.6	6.5
P/BV	2.0	1.8	1.5	1.3
EV / EBITDA	8.5	7.7	6.7	5.0
Dividend Yield (%)	0.3	0.3	0.3	0.3
<b>Operating Ratios</b>				
Gross Profit Margins (%)	53.1	52.6	56.6	59.1
EBITDA Margins (%)	18.8	21.4	24.4	27.5
Effective Tax Rate (%)	22.1	25.0	28.0	28.0
Net Profit Margins (%)	8.7	10.8	12.2	14.8
Net Debt / Equity (x)	0.2	0.1	0.1	0.1
Net Debt / EBITDA (x)	0.7	0.6	0.5	0.2
Fixed Asset Turnover (x)	-	-	-	-
Inventory Turnover Days	45	35	32	34
Receivables Days	7	6	6	7
Payables Days	36	28	26	28
<b>Profitability Ratios</b>				
RoCE (%)	11.0	11.7	12.0	14.9
RoE (%)	8.8	13.6	13.7	17.2
RoIC (%)	12.4	13.1	13.5	16.8

Source Company data, I-Sec research

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