

25 July 2024

India | Equity Research | Q1FY25 results review

Jindal Steel & Power

Metals

Surpasses estimates; further delay in expansion project is a minor blip

Jindal Steel & Power's (JSPL) Q1FY25 performance was ahead of our and consensus estimates. Key points: 1) Sales volume rose 13.6% YoY (4% QoQ) to 2.09mt – the highest since Q2FY22; 2) EBITDA/te (adj.) at INR 12,886 was up 3.5% QoQ mainly due to better product mix; 3) time over-run in Angul expansion project; and 4) net debt was down by INR 7.4bn QoQ to INR 104bn, net debt/EBITDA stood at 1x. Going ahead, we expect EBITDA/te to improve further owing to lower steel making costs, despite realisation coming off. That said, we would keep a close tab on the capex timelines as it is critical for volume growth. Taking cognisance of Q1 performance, we have raised our FY25/26E EBITDA slightly by 4%/2%. Maintain **BUY** with an unchanged TP of INR 1,240 based on 7.5x FY26E EBITDA.

Good performance; margin likely to improve further

JSPL's Q1FY25 EBITDA (adj.) was up 15% QoQ (down 6.2% YoY) at INR 28.5bn, 20% ahead of our and street's estimates. Key points: 1) Sales volume rose 13.6% YoY (4% QoQ) to 2.09mt; 2) EBITDA/te (adj.) rose 3.5% QoQ at INR 12,886 mainly due to better product mix as HSM ramped up; 3) average realisation was up 1% QoQ while coking coal cost was down USD 23/te; 4) net debt declined by INR 7.4bn QoQ despite capex of INR 28bn in Q1FY25, may be due to working capital unlocking; 5) performance of subsidiaries also improved, contributing INR 1.4bn of EBITDA compared to loss of INR 747mn in Q4FY24. Going ahead, we expect EBITDA to improve as coking coal and iron ore costs are likely to decline by USD 30-35/te and INR 500-1,000/te, respectively. Besides, the refinement in product mix is also likely to contribute. That said, realisation is down 1% QoQ as of now.

6mtpa Angul expansion: Time over-run but not cost escalation

During the earnings concall, management mentioned that the ongoing 6mtpa Angul expansion has suffered time over-run due to delay in receiving approvals and heatwave in Odisha. Key points: 1) Slurry pipeline is now likely to be commissioned by Q4FY25 (earlier Q1FY25); 2) BF-II, BOF-II and other ancillary facilities are likely to be commissioned by Q4FY25 (earlier Q2FY25); and 3) BF-III/DRI-II is now likely to be commissioned by Q3FY26 (earlier Q4FY25). At this stage, we do not see any risk to our FY25/26E volume of 8.5mt/10.5mt, though we will keep a close tab on further developments.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	5,27,112	5,00,268	5,42,263	6,60,107
EBITDA	99,349	1,02,008	1,22,161	1,82,282
EBITDA Margin (%)	18.8	20.4	22.5	27.6
Net Profit	31,511	59,384	61,626	1,05,727
EPS (INR)	30.9	58.2	60.4	103.7
EPS % Chg YoY	(47.3)	30.3	4.0	71.4
P/E (x)	21.7	16.7	16.0	9.4
EV/EBITDA (x)	10.7	10.8	8.9	5.8
RoCE (%)	11.0	13.0	11.8	16.7
RoE (%)	8.8	14.7	13.7	20.3

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Market Data

Market Cap (INR)	992bn
Market Cap (USD)	11,850mn
Bloomberg Code	JSP IN
Reuters Code	JNSP.BO
52-week Range (INR)	1,097 /582
Free Float (%)	36.0
ADTV-3M (mn) (USD)	26.8

Price Performance (%)	3m	6m	12m
Absolute	3.8	37.7	54.5
Relative to Sensex	(4.7)	24.9	33.8

Earnings Revisions (%)	FY25E	FY26E
Revenue	(5.2)	(5.7)
EBITDA	4.0	1.7
EPS	6.2	2.3

Previous Reports

14-05-2024: [Q4FY24 results review](#)

10-02-2024: [Q3FY24 results review](#)

Higher captive coal may lead to further cost efficiencies

While slurry pipeline has been delayed, we see cost efficiencies from captive coal to improve further as: 1) Utkal B1 mine (5.0mtpa) is at the last stage of approval and mining is likely to commence in another couple of months; 2) approval process for increase in EC limit for Utkal C from 3.37mtpa to 4.5mtpa is on track and could be completed in next couple of months; and 3) management is planning to increase the EC limit for Gare Palma IV/6 from 4mtpa to 5.0mtpa. In FY25, we expect both Gare Palma IV/6 and Utkal C mines to contribute more than 9mt of captive coal.

Outlook and valuation: Prospects remain intact; maintain BUY

While the time over-run in the ongoing 6mtpa Angul expansion comes as a disappointment, we see two levers of profitability improvement largely intact: 1) Product mix enrichment on capacity ramp up of the newly commissioned 6mtpa HSM; and 2) higher captive coal. As a result, we expect EBITDA/te of INR 13,850 in FY25E which may increase more meaningfully in FY26E to INR 17,000/te owing to the benefits from slurry pipeline, increased EC limit for coal mines, ramp up at HSM and CRM complex. Taking cognisance of better-than-expected performance, we raise our FY25/26E EBITDA slightly by 4%/2%, respectively. We maintain **BUY** on JSPL with an unchanged TP of INR 1,240/share based on 7.5x FY26E EBITDA.

Exhibit 1: Earnings revision

(INR mn)	FY25E			FY26E		
	New	Old	% Chg	New	Old	% Chg
Sales	5,42,263	5,72,074	(5.2)	6,60,107	6,99,775	(5.7)
EBITDA	1,22,161	1,17,407	4.0	1,82,282	1,79,185	1.7
PAT	61,626	58,013	6.2	1,05,727	1,03,374	2.3

Source: I-Sec research

Key risks

- Further delay in the ongoing 6mtpa expansion project.
- Escalation in domestic iron ore prices.
- Higher-than-expected moderation in spreads.

Exhibit 2: Progress on ongoing 6mtpa capex

Projects	Capacity	Indicative Timeline	
		Current	Earlier
Pellet Plant-1	6mtpa	Already Commissioned	
HSM	6mtpa	Already Commissioned	
Slurry Pipeline	18mtpa	Q4FY25	Q1FY25
Pellet plant - 2	6mtpa	Q4FY26	Q4FY25
BoF- 2	3.3mtpa	Q4FY25	Q2FY25
ASU, Coke Oven, RMHS		Q1FY26	Q2FY25
BF - 2	4.6mtpa	Q4FY25	Q2FY25
ACPP - 2	1,050MW	Q3FY25	Q2FY25
BoF- 3	3mtpa	Q3FY26	Q4FY25
DRI - 2	1.8mtpa	Q3FY26	Q4FY25
CRM Complex	1.2mtpa	Q1FY26	Q4FY25
Plate Mill	0.5mtpa	Q1FY27	Q3FY26

Source: I-Sec research, Company data

Q1FY25 concall: Takeaways

- **Q1FY25 volume:** Shipments rose 4% QoQ, 14% YoY to 2.09mt mainly due to ramp up of HSM mill. Total production from HSM mill was 415kt during Q1FY25. Exports were at 0.15mt.
- **Q1FY25 key numbers:** Steel realisation uptick of 1% QoQ; coking coal was down by USD 23/te. Price moderation in commodity grade products has been more compared to value-added (specialised) products.
- **Q2FY25 expectations:** Coking coal cost may be down by USD 32-35/t, iron ore price could be lower by INR 500-1,000/te. NSR has softened by 1% QoQ as of now.
- Post commissioning of HSM, there has been a shift in product mix. In Q1FY25, longs comprised 57% of product mix compared to 68% in FY24. Production from HSM in Q1FY25 stood at 415kt.
- Product mix likely to improve further as more semis are converted to finished steel products.
- **Ongoing 6mtpa project has experienced time over-run** due to a combination of delay in approvals and intense heatwave in Odisha. The resource mobilisation is currently on. Management now expects to complete BF-II and BOF-II by Q4FY25 and remaining facilities over the next 12-15 months. The entire project is likely to be completed within 4 years from inception, which is a record.
- **Capex:** Q1FY25 capex stood at INR 27.96bn. It has already incurred INR 175bn out of budgeted INR 310bn. Management does not expect any cost escalation in the project.
- **Utkal B1 block:** Management expects the last approval to come in next two months post which mining can be commenced.
- **Gare Palma IV/6:** Management is planning to apply for increasing the EC limit to 5.0mtpa from current 4.5mtpa.
- **Utkal C block:** Plan to increase the EC limit to 4.5mtpa is on track; should be done in next two months.
- Labor strike at Gangavaram port resulted in the company not getting the material from RINL for rolling.
- **Net debt** at Q1FY25 end was INR 104.2bn. Management will not breach 1.5x net debt/EBITDA under any circumstance. Currently, net debt/EBITDA stands at 1x.

Exhibit 3: JSPL Q1FY25 standalone performance review

Standalone (INR mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	% Chg QoQ	% Chg YoY
Net sales	1,23,106	1,20,818	1,15,159	1,37,734	1,28,428	(6.8)	4.3
Raw Material Consumed	61,371	51,243	56,021	67,789	69,373	2.3	13.0
Stock Adjustment	(5,176)	8,837	(6,357)	4,119	(1,457)		
Gross Margin	66,911	60,738	65,495	65,827	60,512	(8.1)	(9.6)
Gross Margin (%)	54.4%	50.3%	56.9%	47.8%	47.1%		
Employee cost	2,106	2,271	2,218	2,644	2,496	(5.6)	18.5
Other expenditure	38,272	35,347	36,088	37,991	31,024	(18.3)	(18.9)
EBITDA	26,533	23,121	27,189	25,192	26,992	7.1	1.7
EBITDA (adj.)	27,353	23,501	27,309	24,502	26,952	10.0	(1.5)
Margin (%)	21.6%	19.1%	23.6%	18.3%	21.0%		
Other Income	140	259	295	150	226	50.0	61.1
Depreciation	5,399	5,545	5,595	5,626	5,638	0.2	4.4
EBIT	21,274	17,835	21,889	19,717	21,579	9.4	1.4
Interest	2,579	2,579	1,952	2,099	1,831	(12.8)	(29.0)
PBT	18,696	15,256	19,937	17,618	19,748	12.1	5.6
Tax expense:	4,701	4,170	5,101	4,803	5,183	7.9	10.3
PAT	13,995	11,086	14,837	12,815	14,565	13.7	4.1
Adj. PAT	13,995	11,086	14,837	12,815	14,565	13.7	4.1

Source: I-Sec research, Company data

Exhibit 4: JSPL Q1FY25 consolidated performance review

Consolidated (INR mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	% Chg QoQ	% Chg YoY
Net sales	1,25,883	1,22,502	1,17,013	1,34,870	1,36,178	1.0	8.2
Raw Material Consumed	59,237	48,673	52,051	60,700	68,591	13.0	15.8
Stock Adjustment	(5,503)	9,390	(6,256)	1,906	(72)	(103.8)	(98.7)
Gross Margin	72,149	64,438	71,218	72,263	67,659	(6.4)	(6.2)
Gross Margin (%)	57.3%	52.6%	60.9%	53.6%	49.7%		
Employee cost	2,919	3,096	3,254	3,612	3,022	(16.3)	3.5
Other expenditure	42,950	38,485	39,539	44,207	36,244	(18.0)	(15.6)
EBITDA	26,280	22,857	28,426	24,445	28,393	16.2	8.0
EBITDA (adj.)	30,390	26,977	29,246	24,825	28,513	14.9	(6.2)
Margin (%)	20.9%	18.7%	24.3%	18.1%	20.9%		
Other Income	553	319	351	344	345	0.4	(37.6)
Depreciation	5,875	6,037	6,357	9,949	6,829	(31.4)	16.2
EBIT	20,958	17,139	22,420	14,839	21,909	47.6	4.5
Interest	3,291	3,294	3,151	3,206	3,318	3.5	0.8
PBT	17,667	13,845	19,268	11,633	18,591	59.8	5.2
Tax expense:	748	(58)	(10)	2,301	5,211	126.5	597.2
PAT	16,920	13,904	19,279	9,333	13,379	43.4	(20.9)
Extraordinary items	-	-	-	-	-		
Minority Interest	49	23	(3)	(19)	(22)	16.8	(145.9)
Share of Associates	(2)	(3)	1	2	-	(100.0)	(100.0)
Adj. PAT	16,967	13,924	19,277	9,315	13,357	43.4	(21.3)

Source: I-Sec research, Company data

Exhibit 5: JSPL Q1FY25 operational performance review

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	% Chg QoQ	% Chg YoY
Sales (te)							
Steel products	18,40,000	20,10,000	18,10,000	20,10,000	20,90,000	4.0	13.6
Pellets	10,000	80,000	-	-	-		
EBITDA/te	14,485	11,160	14,999	12,449	12,593	1.2	(13.1)

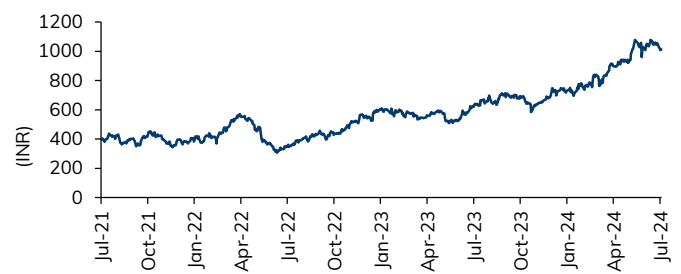
Source: Company data, I-Sec research

Exhibit 6: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	61.2	61.2	61.2
Institutional investors	28.8	26.6	27.2
MFs and others	12.1	11.4	12.3
FIs/Banks	2.9	2.5	2.3
FIIIs	13.8	12.7	12.6
Others	10.0	12.2	11.6

Source: Bloomberg

Exhibit 7: Price chart



Source: Bloomberg

Financial Summary

Exhibit 8: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	5,27,112	5,00,268	5,42,263	6,60,107
Operating Expenses	4,27,763	3,98,260	4,20,102	4,77,825
EBITDA	99,349	1,02,008	1,22,161	1,82,282
EBITDA Margin (%)	18.8	20.4	22.5	27.6
Depreciation & Amortization	26,910	28,218	29,753	32,405
EBIT	72,439	73,790	92,408	1,49,877
Interest expenditure	14,459	12,942	12,728	12,251
Other Non-operating Income	571	1,566	1,644	1,727
Recurring PBT	58,551	62,414	81,324	1,39,352
Profit / (Loss) from Associates	(2)	(1)	-	-
Less: Taxes	12,923	2,980	19,518	33,444
PAT	45,628	59,434	61,806	1,05,907
Less: Minority Interest	421	49	180	180
Extraordinaries (Net)	(13,695)	-	-	-
Net Income (Reported)	31,932	59,433	61,806	1,05,907
Net Income (Adjusted)	31,511	59,384	61,626	1,05,727

Source Company data, I-Sec research

Exhibit 9: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,54,757	1,77,874	1,80,841	2,32,213
of which cash & cash eqv.	54,817	46,938	59,767	95,530
Total Current Liabilities & Provisions	1,02,373	1,01,593	1,00,221	1,10,500
Net Current Assets	52,384	76,281	80,620	1,21,713
Investments	1,425	1,491	1,491	1,491
Net Fixed Assets	4,08,035	4,57,897	5,13,144	5,75,739
ROU Assets	-	-	-	-
Capital Work-in-Progress	71,059	88,720	88,720	88,720
Total Intangible Assets	35,023	33,337	33,337	33,337
Other assets	22,303	25,938	25,938	25,938
Deferred Tax Assets	-	-	-	-
Total Assets	5,91,899	6,85,559	7,45,145	8,48,833
Liabilities				
Borrowings	1,24,709	1,59,106	1,59,106	1,59,106
Deferred Tax Liability	59,366	59,232	59,232	59,232
provisions	3,497	4,290	4,290	4,290
other Liabilities	14,137	15,424	15,424	15,424
Equity Share Capital	1,005	1,002	1,002	1,002
Reserves & Surplus	3,86,061	4,42,158	5,01,744	6,05,431
Total Net Worth	3,87,066	4,43,160	5,02,746	6,06,434
Minority Interest	3,125	4,346	4,346	4,346
Total Liabilities	5,91,899	6,85,559	7,45,145	8,48,833

Source Company data, I-Sec research

Exhibit 10: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	13,648	13,972	14,508	14,200
% growth (YOY)	5.5	2.4	3.8	(2.1)
EBITDA	536	522	566	663
Margin %	3.9	3.7	3.9	4.7
Other Income	66	23	29	57
Extraordinaries	-	38	-	-
Adjusted Net Profit	(155)	(164)	(119)	(78)

Source Company data, I-Sec research

Exhibit 11: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	72,755	60,084	1,12,598	1,45,053
Working Capital Changes	(25,919)	(58,764)	8,490	(5,331)
Capital Commitments	(64,485)	(85,171)	(85,000)	(95,000)
Free Cashflow	8,270	(25,087)	27,598	50,053
Other investing cashflow	24,300	1,730	-	-
Cashflow from Investing Activities	(40,185)	(83,441)	(85,000)	(95,000)
Issue of Share Capital	-	-	-	-
Interest Cost	(15,391)	(16,212)	(12,728)	(12,251)
Inc (Dec) in Borrowings	(5,552)	78,535	-	-
Dividend paid	(2,046)	(2,005)	(2,040)	(2,040)
Others	(2,015)	(74,129)	-	-
Cash flow from Financing Activities	(25,005)	(13,811)	(14,768)	(14,291)
Chg. in Cash & Bank balance	7,566	(37,168)	12,829	35,762
Closing cash & balance	47,572	17,649	59,767	95,530

Source Company data, I-Sec research

Exhibit 12: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	44.7	58.3	60.6	103.8
Adjusted EPS (Diluted)	30.9	58.2	60.4	103.7
Cash EPS	57.3	85.9	89.6	135.4
Dividend per share (DPS)	2.0	2.0	2.0	2.0
Book Value per share (BV)	379.5	434.5	492.9	594.5
Dividend Payout (%)	4.5	3.4	3.3	1.9
Growth (%)				
Net Sales	3.2	(5.1)	8.4	21.7
EBITDA	(36.0)	2.7	19.8	49.2
EPS (INR)	(47.3)	30.3	4.0	71.4
Valuation Ratios (x)				
P/E	21.7	16.7	16.0	9.4
P/CEPS	17.0	11.3	10.9	7.2
P/BV	2.6	2.2	2.0	1.6
EV / EBITDA	10.7	10.8	8.9	5.8
Dividend Yield (%)	0.2	0.2	0.2	0.2
Operating Ratios				
Gross Profit Margins (%)	53.1	56.0	54.9	54.5
EBITDA Margins (%)	18.8	20.4	22.5	27.6
Effective Tax Rate (%)	22.1	4.8	24.0	24.0
Net Profit Margins (%)	8.7	11.9	11.4	16.0
Net Debt / Equity (x)	0.2	0.2	0.2	0.1
Net Debt / EBITDA (x)	0.7	1.1	0.8	0.3
Fixed Asset Turnover (x)	-	-	-	-
Inventory Turnover Days	45	50	45	51
Receivables Days	7	12	9	9
Payables Days	36	33	32	36
Profitability Ratios				
RoCE (%)	11.0	13.0	11.8	16.7
RoE (%)	8.8	14.7	13.7	20.3
RoIC (%)	12.4	14.3	13.0	18.6

Source Company data, I-Sec research

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ANALYST CERTIFICATION

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