

Jindal Steel & Power

BUY

EBITDA in line; balance sheet continues to improve

Summary

Jindal Steel & Power (JSPL) Q2FY22 EBITDA was in line with our forecast. Its EBITDA was flat QoQ (despite domestic sales volumes increasing by 32% QoQ to 2.1 mn tonnes) on fall in pellet realizations and sharp increase in prices of coking coal. The company's volumes jumped QoQ despite sluggish demand in the domestic market as it stepped up exports. Importantly, JSPL's net debt fell by Rs41 bn QoQ to Rs112 bn and it aims to become net debt free company by FY23. Lastly, Jindal Power divestment is approved by shareholders; JSPL expects the deal to be complete during FY22.

Given sharp rise in coking coal prices, we cut our FY23 EBITDA estimates by 9%. We introduce FY24 estimates in this report and roll over our valuation to FY24 estimates. Our revised SOTP-based target price is lowered to Rs540 (earlier Rs538).

Key Highlights and Investment Rationale

- Backward integration enhanced:** JSPL has been declared preferred bidder for Kasia iron ore mine; this will significantly enhance iron ore security. Initially the company will mine 5 mtpa (EC permission 7.5 mtpa).
- Deleveraging to continue; brownfield expansion provides growth visibility:** JSPL announced its intention to become net debt free by sweating its assets. JSPL aims to increase its steel-making capacity in India from 8.6 mtpa in FY21 to 15.9 mtpa by FY24 mainly driven by brownfield expansion at Angul. Also, its pellet capacity will be enhanced from 9 mtpa to 21 mtpa during the same period. These expansions will entail capex of Rs180 bn.
- Outlook:** JSPL's visibility on volume growth remains robust backed by strong balance sheet and proven execution. Looking ahead, it will continue to deleverage balance sheet as it benefits from a strong steel cycle. We believe JSPL stock is likely to be a re-rating candidate over coming few years as 1) it completes sale of Power business (Jindal Power), 2) it continues to reduce debt, and 3) it expands steel capacities.

TP	Rs540	
CMP	Rs419	
Potential upside / downside	29%	
Previous Rating	BUY	

V/s Consensus

EBITDA (Rs bn)	FY23E	FY24E
IDBI Capital	155	139
Consensus	129	138
% difference	20.1	0.7

Shareholding Pattern (%)

Promoters	60.5
FII	9.9
DII	14.9
Public	14.7

Price Performance (%)

	-1m	-3m	-12m
Absolute	4.3	(3.1)	118.9
Rel to Sensex	2.1	(17.2)	67.3

Key Stock Data

Bloomberg / Reuters	JSP IN / JNSP.BO
Sector	Metal & Mining
Shares o/s (mn)	1,020
Market cap. (Rs mn)	427,315
Market cap. (US\$ mn)	5,701
3-m daily average value (Rs mn)	270.2
52-week high / low	Rs502 / 187
Sensex / Nifty	60,029 / 17,889

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	369,175	389,886	577,949	560,847	557,800
EBITDA	78,539	144,443	178,201	155,588	139,371
EBITDA (%)	21.3	37.0	30.8	27.7	25.0
Adj. PAT	2	66,678	100,698	82,169	74,397
EPS (Rs)	0.0	65.4	98.7	80.6	72.9
EPS Growth (%)	nm	nm	51.0	(18.4)	(9.5)
PE (x)	nm	5.7	3.8	4.6	5.1
Dividend Yield (%)	-	-	0.5	0.8	1.0
EV/EBITDA (x)	9.2	3.7	2.8	2.7	2.5
RoE (%)	0.0	20.9	27.4	18.0	14.0
RoCE (%)	5.5	16.7	23.6	19.6	16.2

Source: IDBI Capital Research;

Exhibit 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q2FY22	Q1FY22	QoQ (%)	Q2FY21	YoY (%)
Net Sales	136,117	106,095	28.3	89,898	51.4
Total expenditure	90,176	60,706	48.5	62,875	43.4
EBITDA	45,941	45,390	1.2	27,023	70.0
<i>EBITDA margin (%)</i>	<i>33.8%</i>	<i>42.8%</i>	<i>-903bps</i>	<i>30.1%</i>	<i>369bps</i>
<i>EBITDA/tonne</i>	<i>21,569</i>	<i>28,192</i>	<i>(23.5)</i>	<i>11,213</i>	<i>92.4</i>
Interest	4,817	5,608	(14.1)	7,981	(39.6)
Depreciation	6,096	6,022	1.2	8,729	(30.2)
PBT	35,066	34,096	2.8	11,789	197.4
Tax	9,227	8,939	3.2	2,756	234.8
PAT	25,839	25,157	2.7	9,033	186.1
Diluted EPS	25.3	24.7	2.7	8.9	186.1

Source: Company; IDBI Capital Research

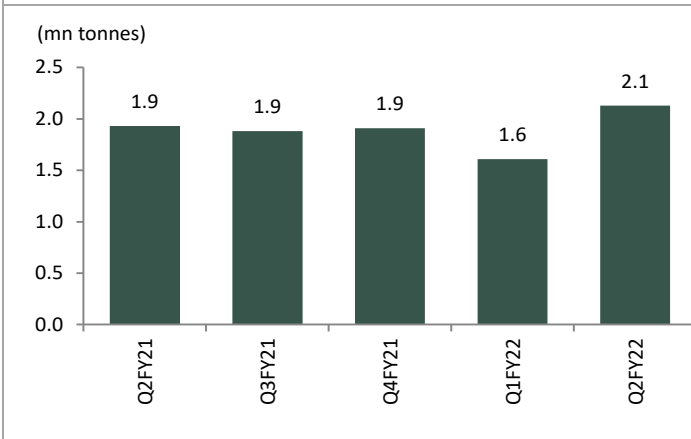
Exhibit 2: Actual vs estimates

(Rs mn)

	Q2FY22E	Q2FY22A	% Variance
Net sales	125,445	136,117	8.5
EBTIDA	46,492	45,941	(1.2)
<i>Margin (%)</i>	<i>37.1</i>	<i>33.8</i>	<i>-331bps</i>
PAT	28,587	25,839	(9.6)
Dil. EPS	28.0	25.3	(9.6)

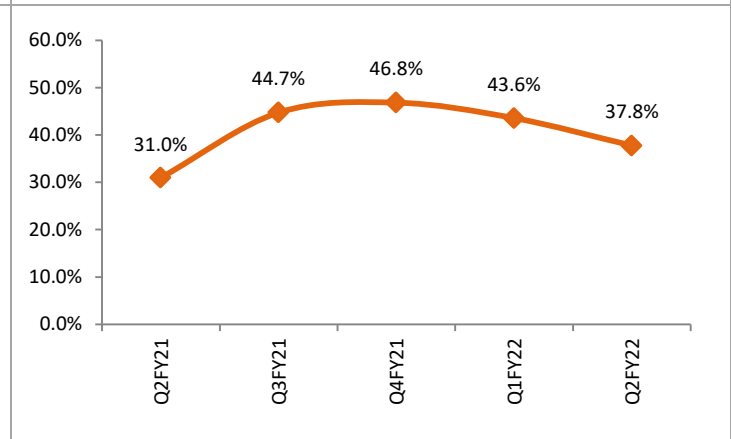
Source: Company; IDBI Capital Research

Exhibit 3: Highest ever steel volumes in Q2FY22



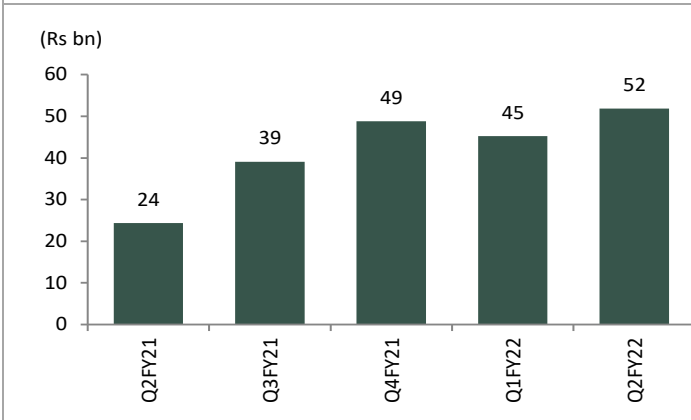
Source: Company; IDBI Capital Research

Exhibit 4: Standalone EBIDTA margins weaken QoQ



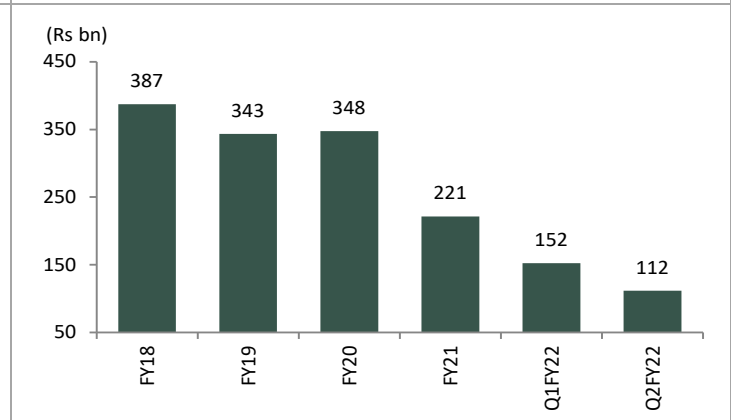
Source: Company; IDBI Capital Research

Exhibit 5: Standalone EBIDTA jumps 116%YoY



Source: Company; IDBI Capital Research

Exhibit 6: Net debt continues to fall



Source: Company; IDBI Capital Research

Exhibit 7: Change in estimates

	FY22E			FY23E			FY24E
	Old	New	(%) Chg	Old	New	(%) Chg	
Revenue (Rs mn)	5,21,599	5,77,949	10.8	5,41,062	5,60,847	3.7	5,57,800
EBITDA (Rs mn)	1,72,141	1,78,201	3.5	1,70,749	1,55,588	(8.9)	1,39,371
EBITDA margin (%)	33.0	30.8	-217bps	31.6	27.7	-382bps	25.0
Net profit (Rs mn)	95,485	1,00,698	5.5	92,902	81,531	(12.2)	71,847
EPS (Rs)	93.6	98.7	5.5	91.1	79.9	(12.2)	70.4

Source: Company; IDBI Capital Research

Exhibit 8: SOTP-based valuation (Rs bn)

	FY23 EBITDA	Multiple (x)	Value
Steel business EBITDA	123	5.0	617
Power business	16	4.0	63
Other international businesses			(88)
Derived enterprise value			593
Less: net debt			41
Derived equity value			551
Target price (Rs/share)			540

Source: IDBI Capital Research

Con-call Highlights

- EBITDA margin declined by 903 bps to 33.8% due to rise in iron ore prices, higher coking coal costs and lower pellet sales.
- On sourcing front, company has preferences from government for buying iron ore from OMC's it has long term agreement with iron ore merchants. Hence iron ore availability is not an issue because company procures from merchant miners, OMC and NMDC.
- JSPL won the bid for Kansai mine in open auction and it is expected to get operationalized by Dec'21.
- The company raised price of flat steel products by Rs.2000/tonne and long steel products by Rs1000/tonne.
- Company maintains 2.5- 3 mn tonnes of iron ore inventory.
- Currently, export market contributes 30-40% of total sales. Going ahead, company is likely to maintain that level in coming quarters as well.
- It witnessed a temporary impact of coal shortage for 15-20 days during the quarter.
- In Angul expansion, company has plan to invest Rs180 bn. Government of India has already cleared company's business plan to produce 25 mn tonnes of steel at Angul.
- JSPL's income tax rate to be at 25% in coming years.
- Company is poised to grow its operations in European countries due to new recent deal initiated in G-20 summit
- In 1HFY22, company spent capex of Rs5bn; aims for a total capex of Rs25 bn in FY22.
- Management is confident of being a net debt free entity by FY23.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	389,886	577,949	560,847	557,800
<i>Growth (%)</i>	5.6	48.2	(3.0)	(0.5)
Operating expenses	(245,444)	(399,749)	(405,259)	(418,428)
EBITDA	144,443	178,201	155,588	139,371
<i>Growth (%)</i>	83.9	23.4	-12.7	-10.4
Depreciation	(34,533)	(36,260)	(36,623)	(37,899)
EBIT	109,909	141,941	118,965	101,472
Interest paid	(30,933)	(18,661)	(15,344)	(8,331)
Other income	5,389	5,820	5,937	6,055
Pre-tax profit	72,956	129,099	109,558	99,197
Tax	(17,687)	(28,402)	(27,390)	(24,799)
<i>Effective tax rate (%)</i>	24.2	22.0	25.0	25.0
Minority interest	-	-	-	-
Net profit	55,269	100,698	82,169	74,397
Exceptional items	(11,409)	-	-	-
Adjusted net profit	66,678	100,698	82,169	74,397
<i>Growth (%)</i>	<i>nm</i>	51.0	(18.4)	(9.5)
<i>Shares o/s (mn)</i>	1,020	1,020	1,020	1,020

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	72,956	129,099	109,558	99,197
Depreciation	13,039	36,260	36,623	37,899
Tax paid	(11,519)	(28,402)	(27,390)	(24,799)
Chg in working capital	31,999	(82,419)	1,563	3,698
Other operating activities	-	-	-	-
Cash flow from operations (a)	106,475	54,539	120,354	115,994
Capital expenditure	151,420	(25,154)	(40,000)	(40,000)
Chg in investments	(9,750)	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	141,671	(25,154)	(40,000)	(40,000)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(141,130)	(70,000)	(95,000)	(20,000)
Dividend (incl. tax)	-	(1,936)	(2,904)	(3,872)
Chg in minorities	(1,013)	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(142,143)	(71,936)	(97,904)	(23,872)
Net chg in cash (a+b+c)	106,003	(42,551)	(17,549)	52,122

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	560,612	549,506	552,883	554,984
Investments	11,555	11,555	11,555	11,555
Other non-curr assets	13,159	13,159	13,159	13,159
Current assets	193,078	163,309	145,760	197,920
Inventories	59,426	69,189	69,189	70,143
Sundry Debtors	27,944	30,963	30,963	30,047
Cash and Bank	61,522	23,390	9,817	65,519
Marketable securities	-	-	-	-
Loans and advances	-	-	-	-
Other current assets	44,186	39,767	35,791	32,212
Total assets	778,404	737,529	723,357	777,618
Shareholders' funds	318,147	416,908	496,173	566,699
Share capital	1,020	1,020	1,020	1,020
Reserves & surplus	317,127	415,888	495,153	565,679
Total Debt	215,512	145,512	50,512	30,512
Secured loans	202,304	132,304	37,304	17,304
Unsecured loans	13,208	13,208	13,208	13,208
Other liabilities	62,395	62,395	62,395	62,395
Curr Liab & prov	191,127	121,491	123,054	126,789
Current liabilities	187,073	117,436	118,999	122,734
Provisions	4,055	4,055	4,055	4,055
Total liabilities	469,035	329,398	235,961	219,696
Total equity & liabilities	778,404	737,529	723,357	777,618
Book Value (Rs)	312	409	486	556

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	65.4	98.7	80.6	72.9
Adj. EPS growth (%)	<i>nm</i>	51.0	(18.4)	(9.5)
EBITDA margin (%)	37.0	30.8	27.7	25.0
Pre-tax margin (%)	18.7	22.3	19.5	17.8
ROE (%)	20.9	27.4	18.0	14.0
ROCE (%)	16.7	23.6	19.6	16.2
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.5	0.8	0.8	0.7
Leverage factor (x)	2.6	2.1	1.6	1.4
Net margin (%)	17.1	17.4	14.7	13.3
Net Debt/Equity (x)	0.5	0.3	0.1	(0.1)
Working Capital & Liquidity ratio				
Inventory days	56	44	45	46
Receivable days	26	20	20	20
Payable days	72	52	52	52

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	<i>nm</i>	3.8	4.6	5.1
Price / Book value (x)	1.2	0.9	0.8	0.7
PCE (x)	3.7	2.8	3.2	3.4
EV / Net sales (x)	1.4	0.9	0.7	0.6
EV / EBITDA (x)	3.7	2.8	2.7	2.5
Dividend Yield (%)	0.0	0.5	0.8	1.0



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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