

Jindal Steel & Power

BUY

EBITDA lower QoQ but deleveraging continues

Summary

Jindal Steel & Power (JSPL) reported lower than expected Q1FY22 EBITDA on weaker than expected sales volumes. Its standalone EBITDA decreased 7% QoQ to Rs45 bn as its volumes fell 16% to 1.6 mn tonnes. Exports contributed 34% to its sales in 1QFY22 compared to 27% in Q1FY21 as lockdown affected domestic demand. Nevertheless, its net debt fell to Rs152 bn as of June 30, compared to Rs221 bn as of March 31 which is a strong positive.

Given weaker than expected EBITDA reported in Q1FY22, we lower our FY22 EBITDA estimate by 11%. We also lower our FY23 EBITDA forecast by 5% and hence our revised SOTP-based target price is lowered to Rs538 (earlier Rs609).

Key Highlights and Investment Rationale

- Volumes affected but EBITDA/tonne strong:** Weak domestic demand impacted its sales volumes (-16% QoQ to 1.6 mn tonnes) despite flattish production (-3% to 2 mn tonnes). Nevertheless, its EBITDA/tonne increased to all-time high at Rs28,098/tonne (+10% QoQ).
- Deleveraging to continue; expansion provides growth visibility:** JSPL announced its intention to become net debt free by sweating its assets. JSPL also plans a 200 km slurry pipeline between Barbil-Angul to reduce iron ore logistic costs and generate additional cash flows from pellet sales (by September 2023).
- Outlook: Although** JSPL reported weaker than expected Q1FY22 EBITDA its visibility on growth remains strong 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. Its newly announced expansion projects provide clarity on capital allocation and growth visibility. 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.

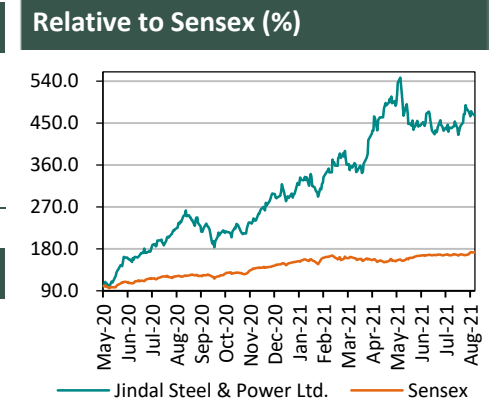
| | |
|-----------------------------|--------------|
| TP | Rs538 |
| CMP | Rs401 |
| Potential upside / downside | +34% |

| V/s Consensus | | |
|----------------|-------|-------|
| EBITDA (Rs bn) | FY22E | FY23E |
| IDBI Capital | 178.3 | 163.1 |
| Consensus | 156.7 | 128.4 |
| % difference | 13.7 | 27.1 |

| Shareholding Pattern (%) | |
|--------------------------|------|
| Promoters | 60.5 |
| FII | 10.5 |
| DII | 14.5 |
| Public | 14.5 |

| Price Performance (%) | | | |
|-----------------------|-------|--------|-------|
| | -1m | -3m | -12m |
| Absolute | 1.6 | (16.6) | 100.9 |
| Rel to Sensex | (2.6) | (27.4) | 57.5 |

| Key Stock Data | |
|---------------------------------|------------------|
| Bloomberg / Reuters | JSP IN / JNSP.BO |
| Sector | Metal & Mining |
| Shares o/s (mn) | 1,020 |
| Market cap. (Rs mn) | 408,771 |
| Market cap. (US\$ mn) | 5,902 |
| 3-m daily average value (Rs mn) | 1,278.3 |
| 52-week high / low | Rs502 / 160 |
| Sensex / Nifty | 54,555 / 16,280 |



| Financial snapshot | | | | | |
|--------------------|----------|----------|----------|----------|----------|
| Year | FY19 | FY20 | FY21 | FY22E | FY23E |
| Revenue | 3,93,721 | 3,69,175 | 3,89,886 | 5,21,599 | 4,68,034 |
| EBITDA | 84,056 | 78,539 | 1,44,443 | 1,78,258 | 1,63,128 |
| EBITDA (%) | 21.3 | 21.3 | 37.0 | 34.2 | 34.9 |
| Adj. PAT | (1,669) | 2 | 66,678 | 1,00,256 | 87,186 |
| EPS (Rs) | (1.7) | 0.0 | 65.4 | 98.3 | 85.5 |
| EPS Growth (%) | (79.7) | nm | nm | 50.4 | (13.0) |
| PE (x) | (232.4) | nm | 6.1 | 4.1 | 4.7 |
| Dividend Yield (%) | - | - | - | - | - |
| EV/EBITDA (x) | 8.7 | 9.6 | 3.9 | 3.2 | 3.1 |
| RoE (%) | (0.5) | 0.0 | 20.9 | 27.2 | 18.9 |
| RoCE (%) | 3.9 | 5.5 | 16.7 | 23.2 | 19.5 |

Source: IDBI Capital Research;

Exhibit 1: Quarterly Snapshot

(Rs mn)

| Financial snapshot | Q1FY22 | Q4FY21 | QoQ (%) | Q1FY21 | YoY (%) |
|--------------------------|----------|----------|---------|--------|---------|
| Net Sales | 1,06,095 | 1,05,937 | 0.1 | 65,193 | 62.7 |
| Total expenditure | 60,706 | 56,301 | 7.8 | 47,079 | 28.9 |
| EBITDA | 45,390 | 49,636 | (8.6) | 18,113 | 150.6 |
| <i>EBITDA margin (%)</i> | 42.8 | 46.9 | -407bps | 27.8 | 1500bps |
| Interest | 5,608 | 5,757 | (2.6) | 8,340 | (32.8) |
| Depreciation | 6,022 | 5,881 | 2.4 | 6,060 | (0.6) |
| PBT | 34,096 | 37,885 | (10.0) | 3,731 | 813.8 |
| Tax | 8,939 | 9,200 | (2.8) | 1,357 | 558.9 |
| PAT | 25,157 | 28,685 | (12.3) | 2,375 | 959.4 |
| Diluted EPS | 26.0 | 29.9 | (13.0) | 2.5 | 959.4 |

Source: Company; IDBI Capital Research

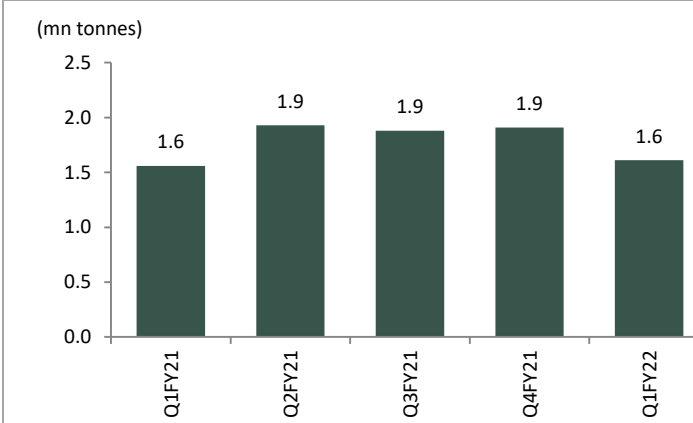
Exhibit 2: Actual vs estimates

(Rs mn)

| | Q1FY22E | Q1FY22A | % Variance |
|-------------------|----------|----------|------------|
| Net sales | 1,24,765 | 1,06,095 | (15.0) |
| EBTIDA | 56,655 | 45,390 | (19.9) |
| <i>Margin (%)</i> | 45.4 | 42.8 | -263bps |
| PAT | 34,036 | 25,157 | (26.1) |
| Dil. EPS | 35.2 | 26.0 | (26.1) |

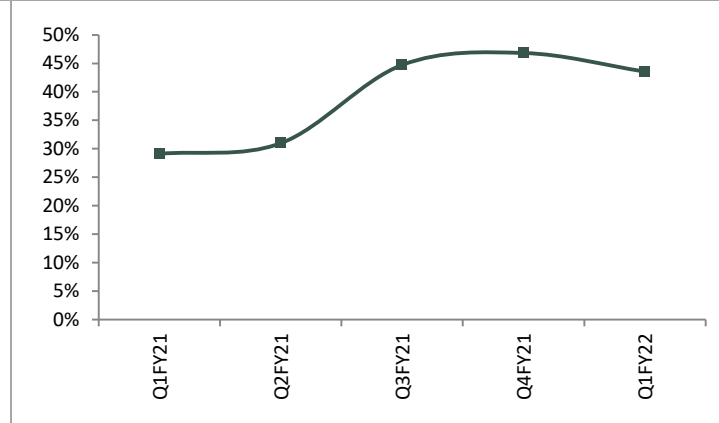
Source: Company; IDBI Capital Research

Exhibit 3: Standalone steel volumes flat YoY



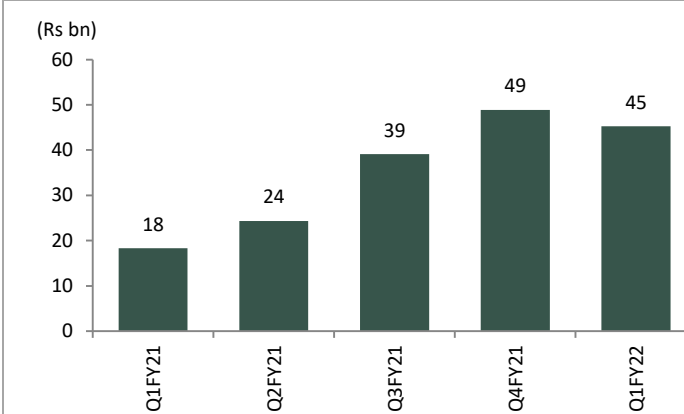
Source: Company; IDBI Capital Research

Exhibit 4: Standalone EBIDTA margin increased YoY



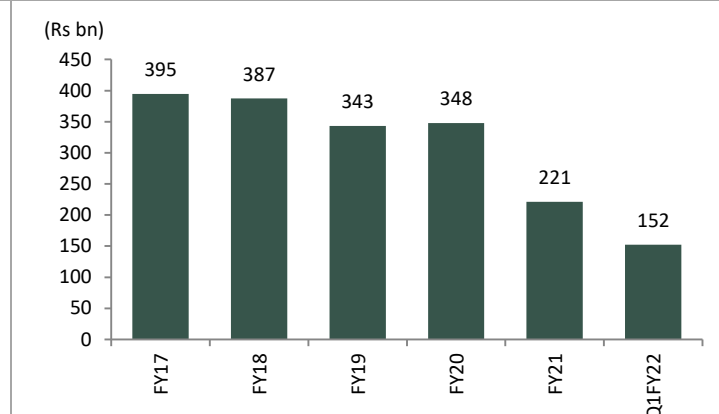
Source: Company; IDBI Capital Research

Exhibit 5: Standalone EBIDTA jumps up sharply YoY



Source: Company; IDBI Capital Research

Exhibit 6: Net debt fell sharply in Q1FY22



Source: Company; IDBI Capital Research

Exhibit 7: Change in estimates

| | FY22E | | | FY23E | | |
|--------------------|----------|----------|---------|----------|----------|---------|
| | Old | New | (%) Chg | Old | New | (%) Chg |
| Revenue (Rs mn) | 4,67,046 | 5,21,599 | 11.7 | 4,35,234 | 4,68,034 | 7.5 |
| EBITDA (Rs mn) | 1,99,779 | 1,78,258 | (10.8) | 1,71,868 | 1,63,128 | (5.1) |
| EBITDA margin (%) | 42.8 | 34.2 | -862bps | 39.5 | 34.9 | -465bps |
| Net profit (Rs mn) | 1,16,562 | 1,00,256 | (14.0) | 94,060 | 87,186 | (7.3) |
| EPS (Rs) | 114.3 | 98.3 | (14.0) | 92.2 | 85.5 | (7.3) |

Source: Company; IDBI Capital Research

Exhibit 8: SOTP-based valuation (Rs bn)

| | FY23 EBITDA | Multiple (x) | Value |
|---------------------------------|-------------|--------------|------------|
| Steel business EBITDA | 149 | 4.5 | 670 |
| Power business | 14 | 4.0 | 57 |
| Other international businesses | | | (88) |
| Derived enterprise value | | | 638 |
| Less: net debt | | | 90 |
| Derived equity value | | | 549 |
| Target price (Rs/share) | | | 538 |

Source: Company data; IDBI Capital Research

Concall Highlights

- In Q1FY22 realization have up by Rs10,000/tonne but simultaneously the cost have gone by Rs7,500/tonnes. Therefore the overall impact on realization is Rs2,500/tonne. Also export is the major contributor to better realization in Q1FY22.
- Sales volume were lower 16% on QoQ to 1.6 mn tonnes due to disruption in logistic.
- 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 sources from merchant miners, OMC and NMDC.
- Iron ore prices have increased from Rs6,000/tonne to Rs11,000/tonnes, but at present price have come down to \$160/tonne from \$220/tonne in international market. This has forced domestic iron ore merchant to reduce the price, hence Rs2,000/tonne price reduction is passed to steel mills which will have effect in Q2FY22.
- Company maintains 2.5- 3 mn tonnes of iron ore inventory.
- In FY21 NSR was lower because 75% was exports, but in FY22 because of international spot market NSR is improved from Rs42,000/tonnes to Rs63,000/tonne across all products.
- JSPL is open for any kind of strategic alliance, mergers & acquisition.
- In Angul expansion company has plan to invest Rs180 bn. Government of India has already cleared company's business plan to produce Rs 25 mn tonnes of steel at Angul.
- Company income tax rate will be below 25%.
- Company is diversifying product portfolio by adding hot strip mill as power integration, specialty hot rolled coil and specialty plates and is also working on downstream HRC plant that is coal rolling, galvanizing and colour coding and pipes. In FY24 company will be is this new product line.
- Net debt is expected to be Rs 80 bn by FY22.
- Capex, guidance is Rs 20-25 bn in FY22.
- Company has booked coking coal at lower price till September 2021; Also 44% 45% of coking is procured from captive mines in Mozambique and South Africa.
- Domestic steel prices are at 10-20% discount of international steel price.

Financial Summary

Profit & Loss Account

(Rs mn)

| Year-end: March | FY20 | FY21 | FY22E | FY23E |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net sales | 3,69,175 | 3,89,886 | 5,21,599 | 4,68,034 |
| <i>Growth (%)</i> | <i>(6.2)</i> | <i>5.6</i> | <i>33.8</i> | <i>(10.3)</i> |
| Operating expenses | (2,90,636) | (2,45,444) | (3,43,341) | (3,04,906) |
| EBITDA | 78,539 | 1,44,443 | 1,78,258 | 1,63,128 |
| <i>Growth (%)</i> | <i>-6.6</i> | <i>83.9</i> | <i>23.4</i> | <i>-8.5</i> |
| Depreciation | (38,672) | (34,533) | (36,260) | (36,623) |
| EBIT | 39,867 | 1,09,909 | 1,41,998 | 1,26,505 |
| Interest paid | (41,493) | (30,933) | (19,285) | (16,194) |
| Other income | 262 | 5,389 | 5,820 | 5,937 |
| Pre-tax profit | (2,458) | 72,956 | 1,28,534 | 1,16,249 |
| Tax | (1,539) | (17,687) | (28,277) | (29,062) |
| <i>Effective tax rate (%)</i> | <i>(62.6)</i> | <i>24.2</i> | <i>22.0</i> | <i>25.0</i> |
| Minority interest | 2,905 | - | - | - |
| Net profit | (1,092) | 55,269 | 1,00,256 | 87,186 |
| Adjusted net profit | 2 | 66,678 | 1,00,256 | 87,186 |
| <i>Growth (%)</i> | <i>(100.1)</i> | <i>nm</i> | <i>50.4</i> | <i>(13.0)</i> |
| <i>Shares o/s (mn)</i> | <i>1,020</i> | <i>1,020</i> | <i>1,020</i> | <i>1,020</i> |

Cash Flow Statement

(Rs mn)

| Year-end: March | FY20 | FY21 | FY22E | FY23E |
|--------------------------------------|-----------------|-------------------|-----------------|-----------------|
| Pre-tax profit | (2,458) | 72,956 | 1,28,534 | 1,16,249 |
| Depreciation | 38,672 | 36,260 | 36,260 | 36,623 |
| Tax paid | 1,044 | (11,519) | (28,277) | (29,062) |
| Chg in working capital | (1,777) | 31,999 | (85,635) | (10,901) |
| Other operating activities | (10,221) | (53,543) | (4,419) | (4,860) |
| Cash flow from operations (a) | 25,260 | 76,153 | 46,462 | 1,08,048 |
| Capital expenditure | (27,301) | 1,28,199 | (50,154) | (40,000) |
| Chg in investments | (297) | (9,750) | - | - |
| Other investing activities | - | - | - | - |
| Cash flow from investing (b) | (27,599) | 1,18,450 | (50,154) | (40,000) |
| Equity raised/(repaid) | 52 | - | - | - |
| Debt raised/(repaid) | 8,981 | (1,41,130) | (50,000) | (67,000) |
| Dividend (incl. tax) | - | - | - | - |
| Chg in minorities | (1,848) | (1,013) | - | - |
| Other financing activities | - | - | - | - |
| Cash flow from financing (c) | 7,185 | (1,42,143) | (50,000) | (67,000) |
| Net chg in cash (a+b+c) | 4,846 | 52,460 | (53,692) | 1,048 |

Balance Sheet

(Rs mn)

| Year-end: March | FY20 | FY21 | FY22E | FY23E |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net fixed assets | 7,25,071 | 5,60,612 | 5,74,506 | 5,77,883 |
| Investments | 1,806 | 11,555 | 11,555 | 11,555 |
| Other non-curr assets | 11,009 | 13,159 | 13,159 | 13,159 |
| Current assets | 1,59,533 | 1,93,078 | 1,43,805 | 1,49,713 |
| Inventories | 63,687 | 59,426 | 59,426 | 59,426 |
| Sundry Debtors | 35,493 | 27,944 | 27,944 | 27,944 |
| Cash and Bank | 9,062 | 61,522 | 7,831 | 8,878 |
| Loans and advances | - | - | - | - |
| Total assets | 8,97,420 | 7,78,404 | 7,43,025 | 7,52,311 |
| Shareholders' funds | 3,21,371 | 3,18,147 | 4,18,403 | 5,05,589 |
| Share capital | 1,020 | 1,020 | 1,020 | 1,020 |
| Reserves & surplus | 3,20,351 | 3,17,127 | 4,17,383 | 5,04,569 |
| Total Debt | 3,56,642 | 2,15,512 | 1,65,512 | 98,512 |
| Secured loans | 2,78,965 | 2,02,304 | 1,52,304 | 85,304 |
| Unsecured loans | 77,677 | 13,208 | 13,208 | 13,208 |
| Other liabilities | 56,232 | 62,395 | 62,395 | 62,395 |
| Curr Liab & prov | 1,70,939 | 1,91,127 | 1,05,492 | 94,591 |
| Current liabilities | 1,66,997 | 1,87,073 | 1,01,437 | 90,536 |
| Provisions | 3,942 | 4,055 | 4,055 | 4,055 |
| Total liabilities | 5,83,813 | 4,69,035 | 3,33,399 | 2,55,498 |
| Total equity & liabilities | 8,97,420 | 7,78,404 | 7,43,025 | 7,52,311 |
| Book Value (Rs) | 315 | 312 | 410 | 496 |

Source: Company; IDBI Capital Research

Financial Ratios

| Year-end: March | FY20 | FY21 | FY22E | FY23E |
|--|-----------|-----------|-------|--------|
| Adj. EPS (Rs) | 0.0 | 65.4 | 98.3 | 85.5 |
| Adj. EPS growth (%) | <i>nm</i> | <i>nm</i> | 50.4 | (13.0) |
| EBITDA margin (%) | 21.3 | 37.0 | 34.2 | 34.9 |
| Pre-tax margin (%) | (0.7) | 18.7 | 24.6 | 24.8 |
| ROE (%) | 0.0 | 20.9 | 27.2 | 18.9 |
| ROCE (%) | 5.5 | 16.7 | 23.2 | 19.5 |
| Turnover & Leverage ratios (x) | | | | |
| Asset turnover (x) | 0.4 | 0.5 | 0.7 | 0.6 |
| Leverage factor (x) | 2.8 | 2.6 | 2.1 | 1.6 |
| Net margin (%) | 0.0 | 17.1 | 19.2 | 18.6 |
| Net Debt/Equity (x) | 1.1 | 0.5 | 0.4 | 0.2 |
| Working Capital & Liquidity ratio | | | | |
| Inventory days | 63 | 56 | 42 | 46 |
| Receivable days | 35 | 26 | 20 | 22 |
| Payable days | 87 | 72 | 52 | 52 |

Valuation

| Year-end: March | FY20 | FY21 | FY22E | FY23E |
|------------------------|------|-----------|-------|-------|
| P/E (x) | - | <i>nm</i> | 4.1 | 4.7 |
| Price / Book value (x) | 1.3 | 1.3 | 1.0 | 0.8 |
| PCE (x) | 10.6 | 4.0 | 3.0 | 3.3 |
| EV / Net sales (x) | 2.0 | 1.4 | 1.1 | 1.1 |
| EV / EBITDA (x) | 9.6 | 3.9 | 3.2 | 3.1 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 |



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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