

Jindal Steel & Power

HOLD

Beat on top-line despite margin pressure

Summary

Jindal Steel & Power (JSPL) revenue was ahead of our forecast. Revenue grew 15% QoQ to Rs134.8bn. Sales volumes increased by 11% QoQ to 2.01 mn tonnes due to higher exports. The export contributed 11% to total volumes (vs. 3% in Q3FY24). However, EBITDA declined by 14% QoQ to Rs24.4 bn due to lower realization (down 5% QoQ) and high coking coal prices. Value added products contributed 64% to sales in FY24 (vs. 63% in FY23). Q4FY24 PAT fell 52% YoY to Rs9.3 bn due to impairment provision of Rs3.6 bn of Australian mine. We cut our FY25 EBITDA estimate by 4% and broadly maintain FY26 EBITDA forecast. We value the stock based on EV/EBITDA multiple of 6x FY26E EBITDA to derive a Target Price of Rs 863 (earlier Rs742). We maintain HOLD rating on the stock given our neutral stance on the steel sector due to rising exports from China.

Key Highlights and Investment Rationale

- Focus on capacity expansion:** JSPL aims to double its capacity at Angul by FY25. JSPL plans to commission Pellet plant-II with a capacity of 6MTPA by the end of Q4FY25. Also, BOF-II/BOF-III with a capacity 3.3/3.0 MTPA will be commissioned in Q2/Q4FY25. The other projects BF-II with a capacity of 4.6MTPA ASU, Coke oven, RMHS and ACP-III 1,050 MW are likely to be commissioned in Q2FY25. By the end of FY25 the total crude steel capacity will be at 15.9MTPA vs. 9.6 MTPA in FY24.
- Other updates:** Infrastructure segment contributed most at 39%, Trade and retail contributed 33%, and rest by others. HSM hit a run rate of 3 mt in Q4FY24 and expect to achieve run rate 3.5 mt in FY25 and 6.0 mt by FY26. JSPL is focusing on converting semi-finished products into value-added finished goods to boost the bottom line. Currently, semi-finished goods volume stands at 1.4 mt.

TP **Rs863**

CMP **Rs939**

Potential upside/downside **-8%**

Previous Rating **HOLD**

Price Performance (%)

	-1m	-3m	-12m
Absolute	4.7	27.3	63.7
Rel to Sensex	6.7	25.6	46.4

V/s Consensus

EBITDA (Rs bn)	FY25E	FY26E
IDBI Capital	61	82
Consensus	63	87
% difference	(3.8)	(5.8)

Key Stock Data

Bloomberg / Reuters	JSP IN / JNSP.BO
Sector	Metal & Mining
Shares o/s (mn)	1,020
Market cap. (Rs mn)	958,169
3-m daily average value (Rs mn)	101.8
52-week high / low	Rs960 / 503
Sensex / Nifty	72,776 / 22,104

Shareholding Pattern (%)

Promoters	61.2
FII	11.9
DII	14.0
Public	12.9

Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	511	527	500	560	656
Change (yoy, %)	31	3	(5)	12	17
EBITDA	155	99	102	121	149
Change (yoy, %)	7	(36)	3	19	23
EBITDA Margin(%)	30.4	18.8	20.4	21.6	22.8
Adj.PAT	87	46	59	62	82
EPS (Rs)	86	45	59	61	82
Change (yoy, %)	31.0	(47.0)	30.6	3.6	33.6
PE(x)	11	21	16	15	11
Dividend Yield (%)	0.2	0.3	0.4	0.5	0.6
EV/EBITDA (x)	6.7	10.3	10.4	8.5	6.5
RoE (%)	25.7	12.3	14.3	13.1	14.3
RoCE (%)	23.0	12.4	11.6	13.2	15.6

Source: IDBI Capital Research

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Exhibit 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Net Sales	1,34,870	1,17,013	15.3	1,36,919	(1.5)
Total expenditure	1,10,425	88,588	24.7	1,15,047	(4.0)
EBITDA	24,444	28,425	(14.0)	21,872	11.8
EBITDA/tonne	12,161	15,705	(22.6)	10,775	12.9
EBITDA margin (%)	18.1%	24.3%	-617bps	16.0%	215bps
Interest	3,206	3,151	1.7	3,712	(13.6)
Depreciation	9,949	6,357	56.5	8,729	14.0
PBT	11,633	19,268	(39.6)	8,055	44.4
Tax	2,301	-10	nm	3,398	(32.3)
PAT	9,332	19,278	(51.6)	4,656	100.4
Diluted EPS	9.3	19.2	(51.5)	4.5	105.8

Source: Company; IDBI Capital Research

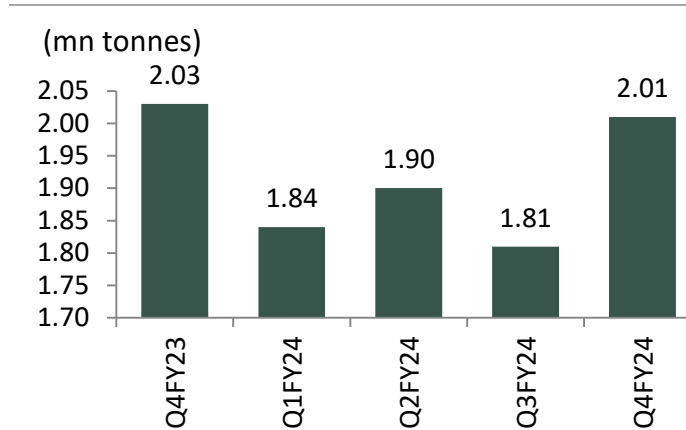
Exhibit 2: Actual vs estimates

(Rs mn)

	Q4FY24E	Q4FY24A	% Variance
Net sales	1,19,939	1,34,870	12.4
EBTIDA	25,259	24,444	(3.2)
Margin (%)	21.1	18.1	-294bps
PAT	11,996	9,332	(22.2)
Dil. EPS	12.4	9.3	(24.8)

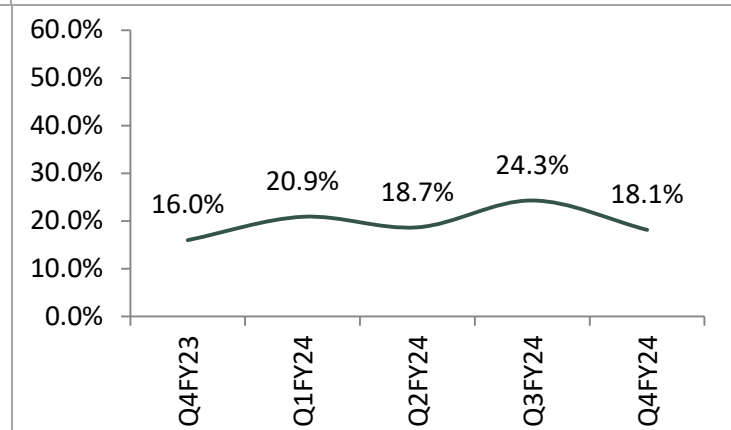
Source: Company; IDBI Capital Research

Exhibit 3: Steel volumes up by 11% QoQ



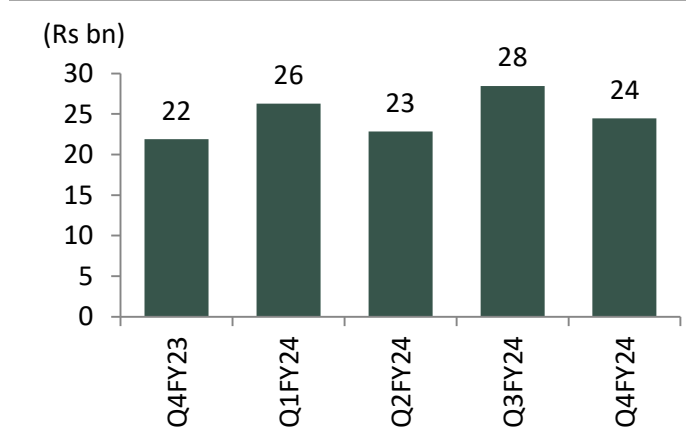
Source: Company; IDBI Capital Research

Exhibit 4: Consolidated EBIDTA margins down 617 bps QoQ



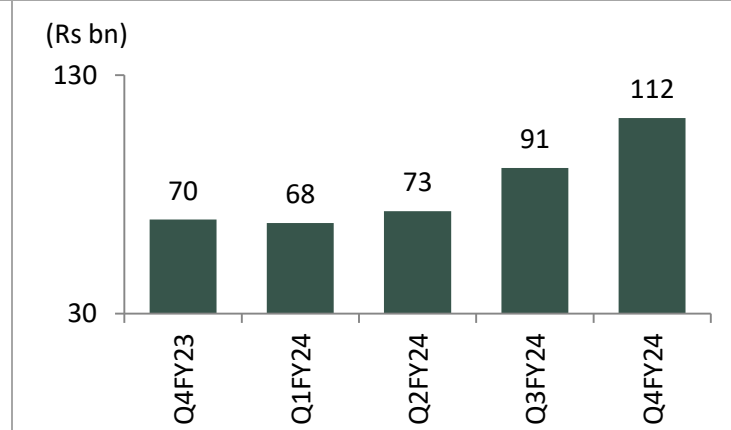
Source: Company; IDBI Capital Research

Exhibit 5: Consolidated EBIDTA down 14% YoY



Source: Company; IDBI Capital Research

Exhibit 6: Net debt higher QoQ



Source: Company; IDBI Capital Research

Exhibit 7: SOTP-based valuation (Rs bn)

INR bn	FY26E
Consolidated EBITDA	153
Multiple (x)	6
Derived enterprise value	916
Less: net debt	31
Derived equity value	886
No of shares (mn)	1002
Target price (Rs/share)	863

Source: IDBI Capital Research; *Note: Power business sold in Q1FY23

Conference call Highlights

- Export share increased from 3% to 11% QoQ.
- PAT declined by 52% QoQ, attributed to an impairment provision of 360 crore for the Australian mine.
- Current utilization stands at 1 million tonnes for Gare Palma and 0.9 million tonnes for Utkal C.
- HSM utilization expected to reach around 3-3.5 million tonnes this year.
- Pallet plant utilization levels are around 9,000-10,000 tonnes per day.
- The company is focusing on converting semi-finished products into value-added finished goods to enhance the bottom line, with a volume of semi-finished goods standing at 1.4 million tonnes.
- Coal blocks Utkal B1 and B2 are anticipated to commence operations within a year.
- The operating capacity of Gare Palma, IV/6, and Utkal C will increase to 5 million tonnes.
- HSM utilization is projected to reach 6 million tonnes next year.
- Cap-Ex guidance ranges between Rs 7,500 and 10,000 crore, contingent on EBITDA levels, with Rs 2,500 cr expected for maintenance.

- Mining at the Australian mine has halted and is currently under care and maintenance. As a result, impairment testing was conducted, leading to a provision of 360 crore. It is anticipated that the mine will operate on a single shaft basis in the future.

Exhibit 8: Change in estimates

	FY25E			FY26E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs bn)	597	560	(6.1)	656	656	(0.1)
EBITDA (Rs bn)	126	121	(3.9)	150	149	(0.4)
EBITDA margin (%)	21	21.6	60bps	22.8	22.8	0bps
Adj. Net profit (Rs bn)	66.5	62	(7.4)	85.3	82.2	(3.6)
Adj. EPS (Rs)	66.1	61.4	(7.1)	84.9	82.0	(3.4)

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs bn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	390	511	527	500	560	656
<i>Change (yoy, %)</i>	5.6	31	3	(5)	12	17
Operating expenses	(245)	(356)	(428)	(398)	(439)	(506)
EBITDA	144	155	99	102	121	149
<i>Change (yoy, %)</i>	83.9	7	(36)	3	19	23
<i>Margin (%)</i>	37.0	30.4	18.8	20.4	21.6	22.8
Depreciation	(35)	(21)	(27)	(28)	(28)	(29)
EBIT	110	134	72	74	93	121
Interest paid	(31)	(19)	(14)	(13)	(12)	(13)
Other income	5	1	1	2	2	2
Pre-tax profit	73	112	45	62	82	110
Tax	(18)	(29)	(13)	(3)	(21)	(27)
<i>Effective tax rate (%)</i>	24.2	26.2	28.8	4.8	25.0	25.0
Minority Interest	-	-	-	(0.0)	(0.0)	(0.0)
Net profit	55	82	32	59	62	82
Exceptional items	(11)	(4)	(14)	-	-	-
Adjusted net profit	67	87	46	59	62	82
<i>Change (yoy, %)</i>	<i>nm</i>	30	(47)	30	4	34
EPS	65.4	85.6	45.4	59.3	61.4	82.0
Dividend per sh	-	2.0	3.0	4.0	5.0	6.0
<i>Dividend Payout %</i>	-	2.4	6.7	7	8	7

Balance Sheet

(Rs bn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	318	356	387	443	500	576
Share capital	1	1	1	1	1	1
Reserves & surplus	317	355	386	442	499	575
Total Debt	216	129	124	159	139	119
Other liabilities	62	80	74	75	75	194
Curr Liab & prov	191	187	106	106	133	155
Current liabilities	187	182	102	101	128	150
Provisions	4	5	4	5	5	5
Total liabilities	469	395	304	340	347	343
Total equity & liabilities	778	766	694	787	851	924
						1
Net fixed assets	561	480	514	580	641	672
Investments	12	5	9	8	8	8
Other non-curr assets	13	19	24	28	28	28
Current assets	193	263	147	171	174	215
Inventories	59	73	59	71	65	72
Sundry Debtors	28	13	10	17	12	13
Cash and Bank	62	37	47	40	54	87
Other current assets	44	141	31	43	43	43
Total assets	778	766	694	787	851	924

Cash Flow Statement

(Rs bn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	73	112	45	62	82	110
Depreciation	13	21	27	28	28	29
Tax paid	(12)	(19)	(26)	(3)	(21)	(27)
Chg in working capital	32	(2)	(64)	(19)	38	8
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	106	112	(18)	69	128	119
Capital expenditure	151	59	(61)	(94)	(89)	(60)
Chg in investments	(10)	7	(4)	1	0	0
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	142	66	(65)	(93)	(89)	(60)
Equity raised/(repaid)	-	(0)	(0)	(0)	-	-
Debt raised/(repaid)	(141)	(87)	(4)	35	(20)	(20)
Dividend (incl. tax)	-	(2)	(3)	(4)	(5)	(6)
Chg in minorities	(1)	23	(12)	1	(0)	(0)
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(142)	(65)	(19)	32	(25)	(26)
Net chg in cash (a+b+c)	106	112	(103)	7	13	33

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	312	352	385	442	499	575
Adj EPS (Rs)	65.4	85.6	45.4	59.3	61.4	82.0
Adj EPS growth (%)	nm	31	-47	31	4	34
EBITDA margin (%)	37.0	30.4	18.8	20.4	21.6	22.8
Pre-tax margin (%)	18.7	21.9	8.5	12.5	14.6	16.7
Net Debt/Equity (x)	0.5	0.3	0.2	0.3	0.2	0.1
ROCE (%)	16.7	23	12	12	13	16
ROE (%)	20.9	26	12	14	13	14

DuPont Analysis

Asset turnover (x)	0.5	0.7	0.7	0.7	0.7	0.7
Leverage factor (x)	2.6	2.3	2.0	1.8	1.7	1.6
Net margin (%)	17.1	16.9	8.7	11.9	11.0	12.5

Working Capital & Liquidity ratio

Inventory days	56	52	41	52	42	40
Receivable days	26	9	7	12	8	7
Payable days	72	54	40	43	45	45

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	14.4	11.0	20.7	15.8	15.3	11.4
Price/Book value (x)	3.0	2.7	2.4	2.1	1.9	1.6
EV/Net sales (x)	2.9	2.0	1.9	2.1	1.8	1.5
EV/EBITDA (x)	7.7	6.7	10.3	10.4	8.5	6.5
Dividend Yield (%)	0.0	0.2	0.3	0.4	0.5	0.6

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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