Jindal steel & Power

BUY

CMP	₹212
Target Price	₹327
Investment Period	12 Months

JSPL is part of OP Jindal Group with presence in steel, power and mining sectors. JSPL has capacity of 10.6 MTPA crude steel and 3,400MW of power generation capacity through its subsidiary Jindal Power Limited (JPL).

Capacity expansion done; EBIDTA/Tonne likely to improve: The company has increased its crude steel capacity more than double in last five years from 3.6 MTPA to 8.6 MTPA and currently running at ~50% utilization, However given the current market scenario of steel demand we expect utilization level to improve to 80-85% in next 7-8 months.

Further, Jindal Shadeed (OMAN subsidiary) with a crude steel capacity of 2MTPA has ram up significantly in last three years and running at ~ 80% utilization we expect the plant to reach to further utilization level of 85-90% going ahead. On account of this we expect a combined output of crude steel to reach to 8.5-9 MTPA by FY19.

Improvement in PLF and PPA going ahead: In FY18 JPL has signed a additional 250MW of PPA which makes it ~30% of installed capacity and it is in further discussions with various utilities for signing of another 300MW PPA. Management expects to generate ~1,700 MW units by FY19 owing to GOI's effort to improve coal availability with implementation of SHAKTI scheme.

Outlook & Valuation: JSPL is currently placed at an inflection point where it is witnessing positive changes like (a) end of capex cycle and equipped with fully operational Angul plant with 5 MTPA capacity, (b) increasing demand of power going forward with expectation of signing new PPA at JPL, (c) monetization of few assets like disinvestment of Tamnar- (EUP-I) 1,000 MW power plant and planning for IPO of OMAN plant. Considering the company's recent developments and favorable business environment, we believe JSPL is trading at attractive valuation to its peer, hence we recommend **ACCUMULATE** on the stock with Target Price of ₹327 based on asset based approach of Steel segment on EV/Tonne basis and Power segment on EV/MW basis.

Exhibit 1: Key Financials

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	**17,948**	**20,409**	**27,069**	**35,918**	**44,048**
% chg	(6)	14	33	33	23
EBIDTA	**3,201**	**4,337**	**5,882**	**8,097**	**10,580**
% chg	(7)	35	36	38	31
EBITDA (%)	18%	21%	22%	23%	24%
EPS (Rs)	**(32)**	**(26)**	**(17)**	**1**	**20**
P/E (x)	-	-	-	216	10
P/BV (x)	0.6	0.7	0.7	0.7	0.6
RoE (%)	-	-	-	0.3	5.9
RoCE (%)	-	0.6	2.9	5.7	9.5
EV/EBITDA	19.9	13.8	10.1	7.3	5.2

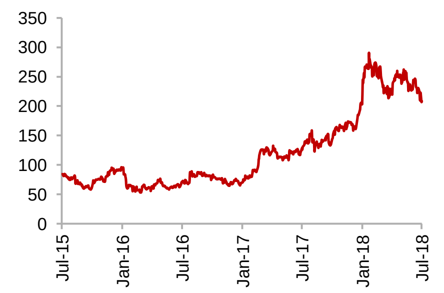
Source: Company, Angel Research; Note: CMP as of July 05, 2018

Stock Info	
Sector	Steel & Power
Market Cap (₹ cr)	20,520
Beta	2.8
52 Week High / Low	294/112
Avg. Daily Volume	630,702
Face Value (₹)	1
BSE Sensex	35,574
Nifty	10,750
Reuters Code	JNSP.BO
Bloomberg Code	JNSP IN

Shareholding Pattern (%)	
Promoters	58.7
MF / Banks / Indian FIs	6.9
FII / NRIs / OCBs	19.2
Indian Public / Others	15.3

Abs.(%)	3m	1yr	3yr
Sensex	6.0	12.9	26.2
JSPL	(7.0)	63.0	156.0

3 years price performance



Source: C-line, Angel Research

Kripashankar Maurya
022 39357600, Extn: 6004
Kripashankar.maurya@angelbroking.com

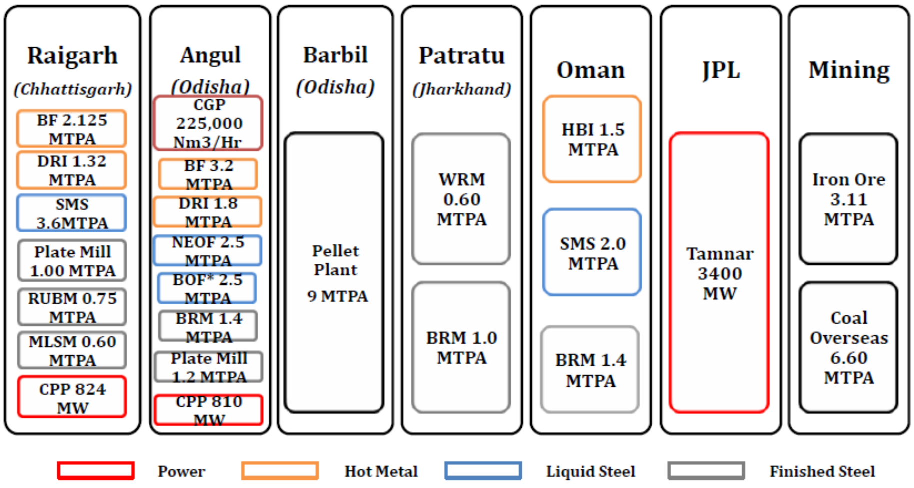
Company background

JSPL is part OP Jindal Group with presence in steel, power and mining sectors. JSPL has capacity of 10.6 MTPA crude steel and 3,400MW of power generation capacity through its subsidiary Jindal Power Limited (JPL).

JSPL operates the largest coal-based sponge iron plant in the world and has an installed capacity of 3 MTPA (million tonnes per annum) of steel at Raigarh in Chhattisgarh. Moreover, it has set up a 0.6 MTPA wire rod mill and a 1 MTPA capacity bar mill at Patratu, Jharkhand, a medium and light structural mill at Raigarh, Chhattisgarh and a 2.5 MTPA steel melting shop and a plate mill to produce up to 5 -meter-wide plates at Angul, Odisha. In Oman (Middle East), the company has a 2 MTPA integrated steel plant with a 1.5 MTPA gas-based Hot Briquetted Iron (HBI) plant.

JSPL has installed power capacity of 3,400MW through its wholly owned subsidiary Jindal Power Limited (JPL). In FY18, JPL had Power Purchase Agreement (PPA) of 1,350MW and it operates at 35-37% utilization.

Exhibit 1: Product mix and installed capacity



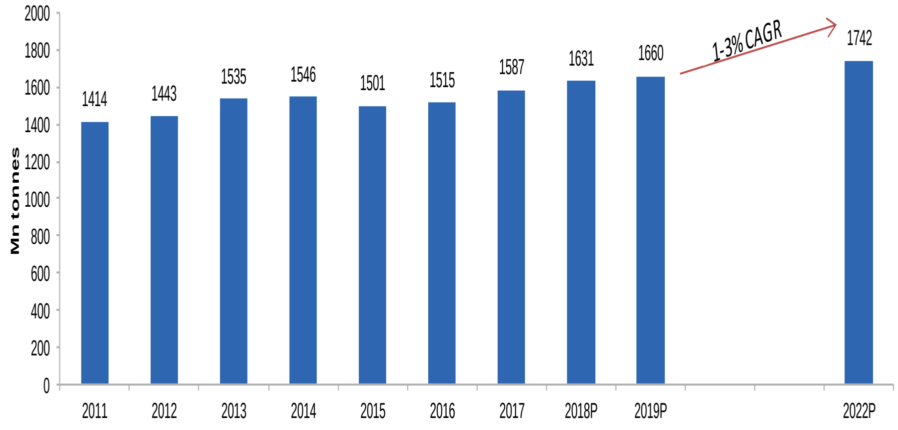
Source: Company, Angel Research

Steel Sector outlook

Global steel demand to grow at 1-3% through FY2022

In 2017, global steel demand grew at 4.8% yoy supported by robust growth from China at 8.3% followed by US, Japan and EU at 6.4%, 3.5 and 3.1% respectively. Going ahead, we expect steel demand to benefit from favorable global economic momentum, especially in advanced economies, however, the risks arising from global trade tensions still exist. Further, higher than expected GDP growth would aid 2-2.5% growth in steel demand from US and EU. China's demand growth is expected to moderate to 2-3% yoy owing to the slack in the construction industry and declining auto production. However, India is expected to outperform with strong growth projection of ~6% yoy led by robust growth in infrastructure and construction segments coupled with healthy automobile production.

Exhibit 2: Global steel demand



Source: CRISIL, Angel Research

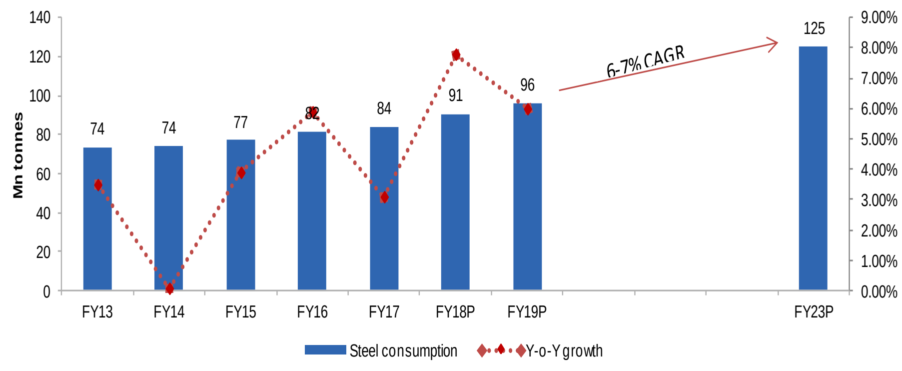
Domestic steel demand to grow at 6-7% through FY2022

Post witnessing moderate growth period since 2012, India's steel demand is exhibiting swift comeback with vigorous growth of 7.8% yoy in FY2018. Pent-up demand from low base of last year (affected due to demonetization), pick up in infra projects, robust growth in auto (automobile production was up 14%) has provided the required thrust to the sector's growth.

Going ahead, we foresee steel demand to continue its strong stride at 6-7% through FY2022E supported by government led initiatives, especially affordable housing and infrastructure projects in metro, road and urban infra space (which are more steel intensive). Government's focus is expected to rise towards execution of affordable housing, with 2019 being a pre-election year.

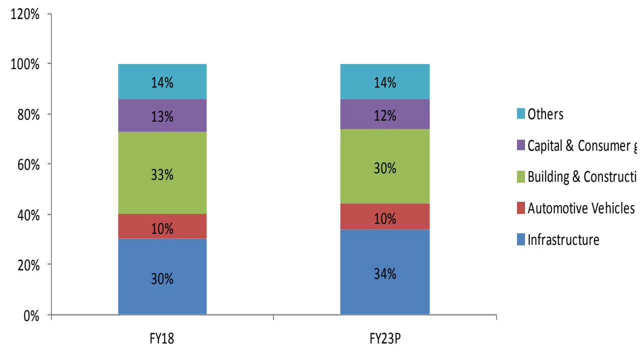
This is evident from the recent rise in houses sanctioned for construction tripling to 4 million in March 2018 as against 1.3 million in January 2017. Additionally, awarding of infrastructure projects is also estimated to pick-up going ahead. Moreover, automotive production is also expected to witness a robust growth of 7-9% through FY2022.

Exhibit 3: Domestic steel consumption



Source: CRISIL, Angel Research

Exhibit 4: Sector wise growth



Source: CRISIL, Angel Research

Exhibit 5: Key sectors growth rate

Segments	Past 5 year growth (%)	Next 5 years growth (%)
Infrastructure	6-7%	8-10%
Building & Construction	2-3%	4.5-5.5%
Automotive Vehicles	5%	7-8%

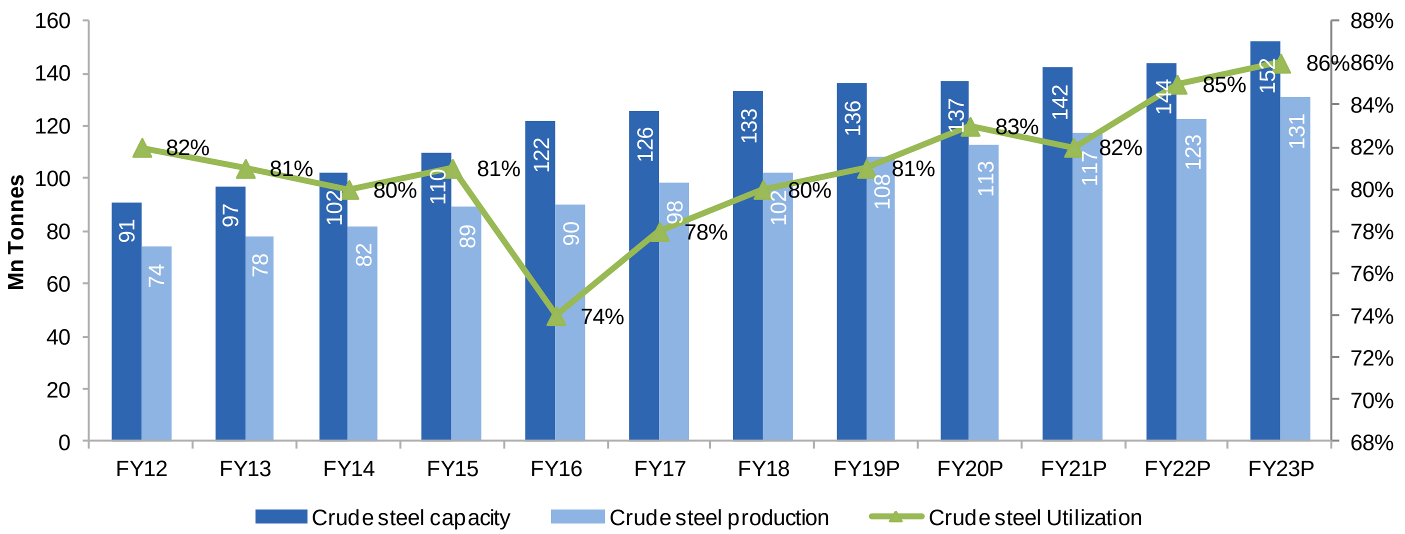
Source: CRISIL, Angel Research

Improvement in utilization levels to continue its upward trajectory

After reaching lower utilization levels in FY2016 due to flooding imports, utilization levels have revived to 78% in FY2017 with government intervention. Even in FY2018, utilization levels steered upward to 80% led by 7.8% demand growth and 17% export growth coupled with capacity additions commissioning towards later part of the year.

With upcoming elections in 2019, progress of government-led projects under affordable housing and infrastructure sector is estimated to expedite. Moreover, automobile production, primarily cars and MHCVs, is expected to grow in the range of 7-8%. This shall potentially result in uptick in the domestic steel demand at 5.5-6.5% yoy. Healthy demand prospects and positive export outlook coupled with minimal capacity additions to further improve utilization levels. Over the next five years, with healthy demand growth at 6-7%, stable exports levels and limited capacity additions would increase utilization levels to 86% by FY2022.

Exhibit 6: Improving Utilization level



Source: CRISIL, Angel Research

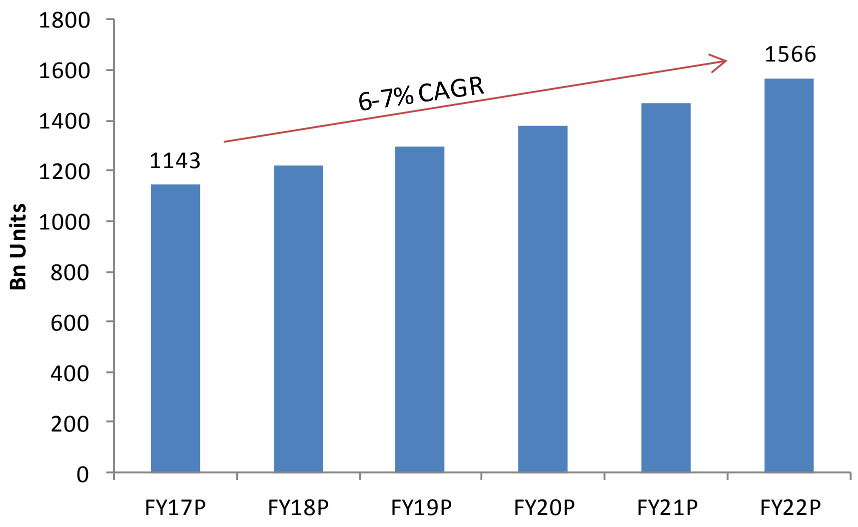
Power Sector Outlook

Indian power sector is undergoing a significant change that has redefined the industry's outlook. Sustained economic growth continues to drive electricity demand in India. The Government of India's focus on attaining 'Power for all' has accelerated capacity addition in the country. At the same time, the competitive intensity is increasing at both the market and supply sides (fuel, logistics, finances, and manpower). Total installed capacity of power stations in India stood at 344 Gigawatt (GW) as on April, 2018.

Power demand to grow at 6-6.5 % CAGR over FY2019-22

Power demand is expected to register a healthy growth of 6-6.5% CAGR over the next 5 years (FY2018-22). Industrial demand is expected to grow at a moderate pace, in-line with GDP growth and gradual pick-up in economic activity. However, residential demand is expected to witness stronger growth on account of higher latent demand and rapid urbanization coupled with impetus from government for rural electrification. Electricity consumption in domestic segment is estimated to increase at a rapid pace of around 8.5-9.0% over FY2018-22 and its share in total electricity consumption is expected to increase to 25% in FY2021 from 23% in FY2016

Exhibit 7: Power sector requirement

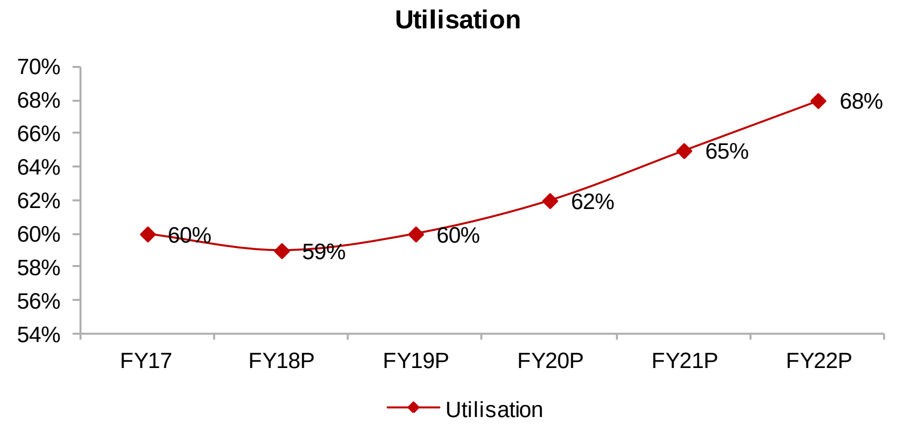


Source: CRISIL, Angel Research

Higher PLF on the back of demand growth

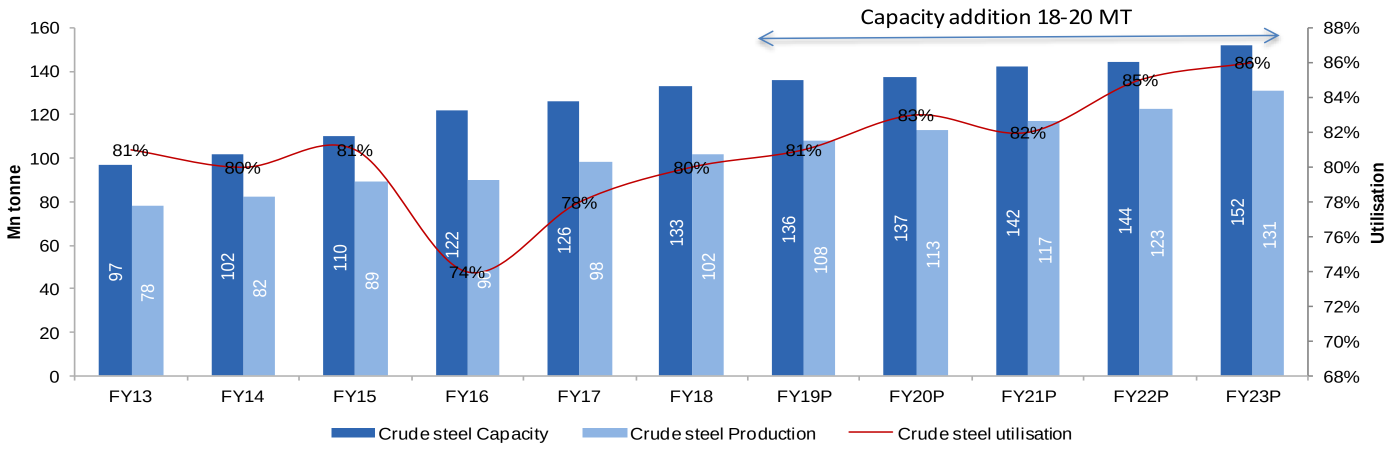
Power supply deficit is expected to narrow down to zero as oversupply situation is going to persist owing to ~29 GW of coal based capacity additions over FY2019-23. However, retirement of ~9.5 GW of old capacities over the same period and higher growth in demand at ~6.8% CAGR would support PLFs. The PLFs are expected to steadily rise to 67-68% by FY2022 with higher off-take from existing tied up capacities, thereby benefitting generators. Coal based PLFs are estimated to remain low at about 62% till FY2020. However, from FY2020 onwards, with an improvement in power demand and retirement of old plants coupled with slowdown in capacity additions owing to stretched financials of developers, we expect an improvement in coal based PLFs to about 67-68% by FY2021-22.

Exhibit 8: Coal based utilisation to improve



Source: CRISIL, Angel Research

Exhibit 9: Limited Capacity addition with improving utilisation

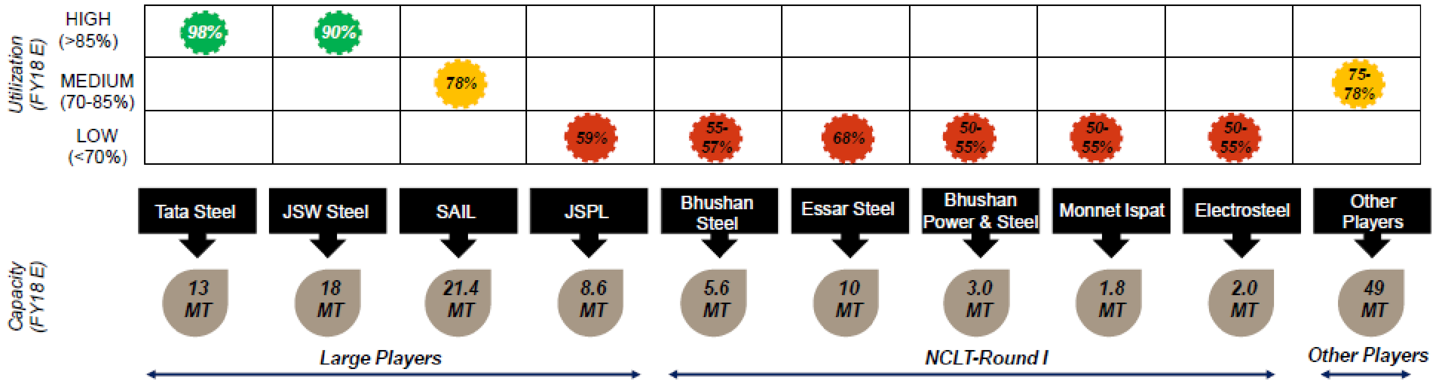


Source: CRISIL, Angel Research

Limited capacity addition leads to improving utilization

Steel capacity expansion is expected to increase moderately due to fewer additions i.e. from 133 MT in FY18 to 152 MT in FY23E, with net addition of ~18-20 MT against 36 MT in last five years. Apart from this, India's nearly one-fifth of steel capacity is referred to NCLT, hence consolidation in industry is expected and post acquisition (if any), the potential ramping up of the stressed asset (refer Exhibit 10) by around 3-4 MTPA is estimated. We expect this scenario to create a significant opportunity for JSPL to tap the upcoming steel demand and deliver better performance.

Exhibit 10: Steel player's capacity and Utilisation



Source: CRISIL, Angel Research

Investment Argument

Capacity expansion done; EBIDTA/Tonne likely to improve:

The company has more than doubled its crude steel capacity in last five years from 3.6 MTPA to 8.6 MTPA and is currently running at ~50% utilization. However, given the current market scenario of steel demand, we expect utilization level to improve to 80-85% over the next 7-8 months. Further, Jindal Shadeed (OMAN subsidiary), with a crude steel capacity of 2MTPA, has ramped up significantly in the last three years and is running at ~ 80% utilization. We expect the plant to reach to further utilization level of 85-90% going ahead. On account of this, we expect a combined output of crude steel to reach to 8.5-9 MTPA by FY19E.

Moreover, higher utilization of current capacity would lead to an improvement in the company's steel production and enhance operating margins. Over FY19-20E, we expect JSPL to report EBITDA/tonne in the range of `10,500-12,000 (`12,500 EBIDTA/tonne in Q4FY18) owing to continuous demand of steel from infrastructure, housing and auto sectors

Improvement in PLF and PPA going ahead

JPL currently has PPA arrangement of 30% of total installed capacity of 3400 MW power plant and running at 37% utilization level. During the year JPL has signed a 250MW PPA and it is in discussions with various utilities for another 300MW PPA and management expects to generate ~ 1,700 MW units by FY19. We expect the plant's utilization to improve further owing to increasing power demand and GOI's effort to improve coal availability with implementation of SHAKTI scheme.

Exhibit 11: PPA arrangements

Project	Buyer	Type	From	To	Quantum MW
Tamnar II (Phase 1)	Tamilnadu	Long term	Feb-14	Sep-18	400
Tamnar		Medium Term	Sep-17	Aug-19	200
Tamnar II (Phase 1)	KSEB	Long Term	Jun-18	May-41	200
Tamnar II (Phase 1)			Oct-18	Sep-42	150
Tamnar II (Phase 1)	Chhattisgarh	Long Term	After commercial operation of Unit and for complete life of plant		60
Tamnar II (Phase 2)					60

Source: Company, Angel Research

Exhibit 12: Coal arrangements

Arrangements	Tamnar-I (EUPI)*	Tamnar-II (EUPII)	Tamnar-II-(EUP III)
FSA	Coal sourced through market purchase and e-auction	linkages with MGL and SECL	
PPA	TNEB-200 MW	TNEB-400MW CSEB-60MW KSEB-200MW KSEB-150 MW	CSEB-60MW

Source: Company, Angel Research

**Disinvestment announced*

Valuation Assumption

We value the stock on Asset based approach, valuing each segment's assets at discount to its peer companies, while applying multiple to respective asset. We arrive at the SOTP based target price of ` 327.

Exhibit 13: Asset based SOTP Valuation

Segments	Capacity	Multiple (X) ₹ Cr.	Total ₹Cr.
Power- (EV/MW)*	3,400	4	13,600
Steel- (EV/Tonne)#	10.6	5,400	57,240
Consol Enterprise Value (A)			70,840
Add			
CWIP (B)			3,877
Cash(C)			468
Subtotal (D)= (A)+(B)+(C)			**75,185**
Less			
Debt FY18 (E)			42,000
Equity Value (F)= (D)-(E)			**33,185**
No of share (G)^			102
Value per share INR (F)/(G)			**327**
CMP			**212**
Upside			**54%**

Source: Company, Angel Research

Note:

*Disinvestment announced in May 2016 by JSW Energy to acquire 1,000 MW (4X250) Tamnar Thermal Power Plant from JSPL.

Valuing Power segment by applying multiple of ₹4Cr./MW at 16% discount to JSW Energy's EV ₹4.75Cr./MW.

Valuing the steel segment by applying multiple of ₹5,400Cr. /MTPA at 12% discount to JSW Steel's EV/Tonne ₹6,100Cr. /MTPA.

^ Factoring issuance of warrant shares.

Exhibit 14: Peer Asset Valuation

Particular	JSW steel	Tata Steel	JSW Energy	Tata power	NTPC
EV/Tonne	6,103	5,393			
EV/MW			4.8	5.5	4.6
Crude steel Capacity (MTPA)	18	28			
Power Generation Capacity (MW)			4,437	10,757	53,651

Source: Company, Angel Research

Outlook & Valuation

JSPL is currently placed at an inflection point where it is witnessing positive changes like (a) end of capex cycle and equipped with fully operational Angul plant with 5 MTPA capacity, (b) increasing demand of power going forward with expectation of signing new PPA at JPL, (c) monetization of few assets like disinvestment of Tamnar- (EUP-I) 1,000 MW power plant and planning for IPO of OMAN plant. Considering the company's recent developments and favorable business environment, we believe JSPL is trading at attractive valuation to its peer, hence we recommend **ACCUMULATE** on the stock with Target Price of ₹327 based on asset based approach of Steel segment on EV/Tonne basis and Power segment on EV/MW basis.

Key risks

Shortage of coal

The major threat for the company is the shortage and higher coal prices going forward, which may affect the power segment adversely.

Excess supply of steel

Resolution in NCLT phase I is a key, any material improvement in utilization of this group company may stabilizes or reduce steel price in future. However, this plant is already running at 60-70% utilization level.

Softening of steel prices

Any slowdown of investments in key steel consuming sector such as infrastructure, housing and auto may trigger lower demand of steel, which could lead to subdued steel prices.

Income Statement

Y/E March (₹cr)	FY16	FY17	FY18	FY19E	FY20E
Total operating income	**18,371**	**21,051**	**27,383**	**35,918**	**44,048**
% chg	(6)	15	30	31	23
Total Expenditure	**15,170**	**16,714**	**21,502**	**27,821**	**33,468**
Raw Material	6,076	6,535	9,378	11,709	14,536
Personnel	947	914	956	1,268	1,555
Purchase of finished goods	21	265	324	359	440
Others Expenses	8,127	8,999	10,843	14,484	16,937
EBIDTA	**3,201**	**4,337**	**5,882**	**8,097**	**10,580**
% chg	(51)	35	36	38	31
(% of Net Sales)	17.4	20.6	21.5	22.5	24.0
Depreciation& Amortisation	4,068	3,949	3,883	4,114	4,234
EBIT	**-867**	**388**	**1,999**	**3,983**	**6,346**
% chg	(123)	(145)	415	99	59
(% of Net Sales)	-5	2	7	11	14
Interest & other Charges	3,254	3,441	3,866	3,866	3,866
Other Income	157	10	3	3	3
Extraordinary Items	(236)	(372)	(577)	-	-
Recurring PBT	-3,728	-2,671	-1,287	121	2,483
% chg	(220)	(28)	(52)	(109)	1,960
Tax	-877	-503	-240	28	571
PAT (reported)	**-2,850**	**-2,168**	**-1,047**	**93**	**1,912**
% chg	(189)	(24)	(52)	(109)	1,960
(% of Net Sales)	-15.5	-10.3	-3.8	0.3	4.3
Basic & Fully Diluted EPS (Rs)	-32	-26	-17	1	20

Source: Company, Angel Research

Balance Sheet

Y/E March (` cr)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Equity Share Capital	91	92	97	97	97
Reserves& Surplus	32,345	29,959	30,283	30,376	32,288
Shareholders' Funds	32,436	30,051	30,380	30,473	32,385
Equity Share warrant			5	5	5
Minority Interest	900	647	440	338	235
Total Loans	44,132	39,958	39,198	38,824	34,362
Other Liabilities	6,911	6,430	6,074	8,412	8,744
Total Liabilities	**84378**	**77086**	**76097**	**78052**	**75731**
APPLICATION OF FUNDS					
Net Block	**66,195**	**66,934**	**69,550**	**67,732**	**65,997**
Capital Work-in-Progress	10,703	8,714	3,877	1,947	1,850
Investments	359	368	146	146	146
Long Term Loans & Advances				-	-
Current Assets	**12,732**	**13,022**	**14,313**	**18,245**	**21,727**
Inventories	3,254	3,599	4,960	6,396	7,241
Sundry Debtors	1,429	1,717	1,826	2,423	2,972
Cash & Cash Equivalent	620	477	468	254	344
Loans & Advances	7,354	6,841	6,589	8,743	10,722
Investments & Others	74	387	471	429	450
Current liabilities	**8,815**	**13,489**	**13,133**	**17,488**	**20,765**
Net Current Assets	**3,917**	**-467**	**1,180**	**758**	**963**
Other Non Current Asset	3,204	1,537	1,343	7,470	6,775
Total Assets	**84378**	**77086**	**76097**	**78052**	**75731**

Source: Company, Angel Research

Cash Flow

Y/E March (₹cr)	FY16	FY17	FY18	FY19E	FY20E
Profit before tax	(3,728)	(2,671)	(1,287)	121	2,483
Depreciation	4,068	3,949	3,883	4,114	4,234
Change in Working Capital					
Interest / Dividend (Net)	3,254	3,441	3,866	3,866	3,866
Direct taxes paid	(877)	(503)	(240)	28	571
Others	1,617	2,582	(516)	(701)	(114)
Cash Flow from Operations	**4,333**	**6,799**	**5,706**	**7,427**	**11,040**
(Inc.)/ Dec. in Fixed Assets	(3,853)	(2,354)	(2,000)	(2,499)	(2,498)
(Inc.)/ Dec. in Investments	1,589	356	175	(46)	(45)
Cash Flow from Investing	**(2,261)**	**(1,998)**	**(1,825)**	**(2,545)**	**(2,543)**
Issue of Equity	-	-	1,200	-	-
Inc./(Dec.) in loans	-17085.5	-2875.18	-759.59	-374.85	-4462
Others	14,414	(2,181)	(4,306)	(4,516)	(3,946)
Cash Flow from Financing	**(2,672)**	**(5,057)**	**(3,866)**	**(4,891)**	**(8,408)**
Inc./(Dec.) in Cash	(600)	(256)	15	(9)	89
Opening Cash balances	1,103	503	247	262	254
Closing Cash balances	503	247	263	254	343

Source: Company, Angel Research

Key Valuation

Y/E March (X)	FY2016	FY2017	FY2018	FY2019E	FY2020E
P/E (on FDEPS)	-	-	-	215.9	10.5
P/CEPS	16.5	11.3	7.1	4.8	3.3
P/BV	0.6	0.7	0.7	0.7	0.6
EV/Sales	3.6	2.9	2.2	1.6	1.2
EV/EBITDA	19.9	13.8	10.1	7.3	5.2
EV / Total Assets	0.8	0.8	0.8	0.8	0.7
Per Share Data (₹)					
EPS (Basic)	-31.9	-26.2	-16.8	1.0	19.8
EPS (fully diluted)	-30.4	-25.0	-16.0	0.9	18.8
Cash EPS	12.6	18.4	29.3	43.5	63.5
DPS	0.0	0.0	0.0	0.0	0.0
Book Value	335	310	314	315	335
Returns (%)					
ROCE	-1.1	0.6	2.9	5.7	9.5
Angel ROIC (Pre-tax)	-1.2	0.6	2.8	5.3	8.6
ROE	-9.5	-8.5	-5.3	0.3	5.9
Turnover ratios (x)					
Inventory / Sales (days)	66	64	67	65	60
Receivables (days)	29	31	25	25	25
Payables (days)	47	52	56	56	56
Working capital cycle (ex-cash) (days)	48	43	35	33	28

Source: Company, Angel Research

Research Team Tel: 022 - 39357800 E-mail: research@angelbroking.com Website: www.angelbroking.com

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4. Broking relationship with company covered under Research	No