

## Jindal Steel & Power

### Performance Update

INR Cr.	Q1FY19	Q1FY18	% chg. (yoy)	Q4FY18	% chg. (qoq)
<b>Net Sales</b>	9540	5607	70	8599	12
Operating profit	2277	1353	68	1699	33.96
OPM (%)	24	24	(26bp)	20	400bp
<b>Adj. PAT</b>	110	-420	NA	-425	NA

Source: Company, Angel Research

For Q1FY2019, JSPL reported above expectation results on all fronts. Company registered revenue growth of 70% yoy/12% qoq to ₹ 9,540cr against ₹5,607cr/ ₹8,599cr respectively on consolidated basis. Domestic EBIDTA/tonne improved to ₹13,800 in the quarter under review from ₹12,873 (Q4FY18)/ ₹9,259 (Q1FY2018) due to improvement in sales realization. However steel production has been reduced due to temporary shutdown of Angul and Raigarh plants during the quarter.

**JPL:** Power segment has reported EBIDTA growth of 18% qoq to ₹314cr as against ₹265cr. Margins improved to 32% vs. 28% in Q4FY2018 owing to reduction in coal cost and improvement in PLF to 37% as against 31% in Q4FY2018. We believe that availability of coal would improve further owing to implementation of coal tolling arrangement of tenders of State Government with generators and in long term by introduction of Commercial Mining as proposed by GOI.

**Outlook & Valuation: We maintain our Buy recommendation with a slight reduction in Target Price to ₹320 from ₹327 (due to increased net debt level).** However, we expect JSPL to perform well in coming years owing to improving realization in steel segment, limited addition of steel capacity in near term and improving demand of steel going forward. We expect power segment to perform well on account of improving power demand situation and various effort by GoI for availability of coal to power generator.

### Key Financials

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E
<b>Net Sales</b>	<b>20,409</b>	<b>27,069</b>	<b>35,918</b>	<b>44,048</b>
% chg	14	33	33	23
<b>EBIDTA</b>	<b>4,337</b>	<b>5,882</b>	<b>8,097</b>	<b>10,580</b>
% chg	35	36	38	31
EBITDA (%)	21%	22%	23%	24%
<b>EPS (Rs)</b>	<b>(26)</b>	<b>(17)</b>	<b>1</b>	<b>20</b>
P/E (x)	-	-	209	10
P/BV (x)	0.6	0.6	0.6	0.6
RoE (%)	-	-	0.3	5.9
RoCE (%)	0.6	2.9	5.7	9.5
EV/EBITDA	13.5	9.9	7.1	5.0

Source: Company, Angel Research

Valuation done based on 13<sup>th</sup> August 2018 closing price

Please refer to important disclosures at the end of this report

## BUY

CMP	₹200
Target Price	₹320
Investment Period	12 Months

### Stock Info

Sector	Steel & Power
Market Cap (₹ cr)	19,329
Net Debt (₹ cr)	42,680
Beta	2.6
52 Week High / Low	294/112
Avg. Daily Volume	872,696
Face Value (₹)	1
BSE Sensex	37,644
Nifty	11,355
Reuters Code	JNSP.BO
Bloomberg Code	JNSP IN

### Shareholding Pattern (%)

Promoters	58.7
MF / Banks / Indian Fls	6.9
FII / NRIs / OCBs	19.2
Indian Public / Others	15.2

Abs.(%)	3m	1yr	3yr
Sensex	6.0	21.0	34.0
JSPPL	(19.0)	60.0	143.0

### 3years performance chart



Source: Company, Angel Research

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## Exhibit 1: 1QFY2019 Performance

Y/E March (₹ cr)	1QFY19	1QFY18	% chg. (yoy)	4QFY18	% chg. (qoq)	FY2018	FY2017	% chg
<b>Total Operating Income</b>	<b>9665</b>	<b>5669</b>	71	<b>8599</b>	12	<b>27383</b>	<b>21051</b>	30
Net raw material	3771	1835	106	3021	25	9461	7083	34
(% of Sales)	71	74	-3	70	1	70	71	
Employee Cost	245	232	6	238	3	956	914	5
(% of Sales)	7	6	14	8	-18	9	8	
Other Expenses	3372	2249	50	3641	-7	11085	8717	27
(% of Sales)	13	13	-1	17	-24	16	16	
<b>Total Expenditure</b>	<b>7389</b>	<b>4316</b>	<b>71</b>	<b>6900</b>	<b>7</b>	<b>21502</b>	<b>16714</b>	29
<b>Operating Profit</b>	<b>2277</b>	<b>1353</b>	<b>68</b>	<b>1699</b>	<b>34</b>	<b>5882</b>	<b>4337</b>	36
OPM (%)	24	24	-1	20	19	6	5	13
Interest	973	901	8	1071	-9	3866	3441	12
Depreciation	1040	962	8	960	8	3883	3949	-2
Other Income	-	-		1		17	35	-51
<b>PBT</b>	<b>264</b>	<b>-510</b>		<b>-332</b>	<b>-179</b>	<b>-1867</b>	<b>-3053</b>	NA
(% of Sales)	3	-9		-4	-171	4	4	
Tax	154	-89		94	63	-240	-503	NA
(% of PBT)	2	-2		1	45	26	23	
<b>Reported PAT before MI &amp; Extra Ord. Items</b>	<b>110</b>	<b>-421</b>		<b>-427</b>	<b>NA</b>	<b>-1627</b>	<b>-2550</b>	NA
PATM	1.1	-7.4		-5.0		-5.9	-12.1	
Minority Interest				0		0	0	
P/L of Ass. Co.	0	1		2		0	0	
Extra-ordinary Items	0	0				-577	-372	
<b>Reported PAT</b>	<b>110</b>	<b>-420</b>		<b>NA</b>	<b>NA</b>	<b>-1627</b>	<b>-2550</b>	NA

Source: Company, Angel Research

**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.

## 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 ₹ 320.

### Exhibit 2: Asset Based SOTP Valuation

Segments	Capacity	Multiple (X)	Total INR Cr.
Power- (EV/MW)*	3,400	4	13,600
Steel- (EV/Tonne)#	10.6	5,400	57,240
Consol Enterprise Value (A)			<b>70,840</b>
<i>Add</i>			
CWIP (B)			3,877
Cash(C)			468
<b>Subtotal (D) = (A)+(B)+(C)</b>			<b>75,185</b>
<i>Less</i>			
Debt FY18 (E)			42,680
<b>Equity Value ( F) = (D)-(E)</b>			<b>32,505</b>
No of share (G)^			102
<b>Value per share INR (F)/(G)</b>			<b>320</b>
<b>CMP</b>			<b>200</b>
<b>Upside</b>			<b>60%</b>

Source: Company, Angel Research

Note:

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

Valuing Power segment by applying multiple of ₹4cr/MW at 22% discount to JSW Energy's of EV ₹5.1cr/MW.

# Valuing the steel segment by applying multiple of ₹5,400cr/MTPA at 26% discount to JSW Steel's EV/Tonne of ₹6,788cr/MTPA.

^ Factoring issuance of warrant shares.

### Exhibit 3: Peer Asset Valuation

Particular	JSW steel	Tata Steel	JSW Energy	Tata power	NTPC
EV/Tonne	6,788	5,393			
EV/MW			5.1	6.2	4.7
Crude steel Capacity (MTPA)	18	28			
Power Generation Capacity (MW)			4,437	10,757	53,651

Source: Company, Angel Research

## Consolidated Financial Statement

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E
<b>Total operating income</b>	<b>21,051</b>	<b>27,383</b>	<b>35,918</b>	<b>44,048</b>
<i>% chg</i>	15	30	31	23
<b>Total Expenditure</b>	<b>16,714</b>	<b>21,502</b>	<b>27,821</b>	<b>33,468</b>
Raw Material	6,535	9,378	11,709	14,536
Personnel	914	956	1,268	1,555
Purchase of finished goods	265	324	359	440
Others Expenses	8,999	10,843	14,484	16,937
<b>EBIDTA</b>	<b>4,337</b>	<b>5,882</b>	<b>8,097</b>	<b>10,580</b>
<i>% chg</i>	35	36	38	31
<i>(% of Net Sales)</i>	20.6	21.5	22.5	24.0
Depreciation & Amortisation	3,949	3,883	4,114	4,234
<b>EBIT</b>	<b>388</b>	<b>1,999</b>	<b>3,983</b>	<b>6,346</b>
<i>% chg</i>	(145)	415	99	59
<i>(% of Net Sales)</i>	2	7	11	14
Interest & other Charges	3,441	3,866	3,866	3,866
Other Income	10	3	3	3
Extraordinary Items	(372)	(577)	-	-
<b>Recurring PBT</b>	<b>-2,671</b>	<b>-1,287</b>	<b>121</b>	<b>2,483</b>
<i>% chg</i>	(28)	(52)	(109)	1,960
Tax	-503	-240	28	571
<b>PAT (reported)</b>	<b>-2,168</b>	<b>-1,047</b>	<b>93</b>	<b>1,912</b>
<i>% chg</i>	(24)	(52)	(109)	1,960
<i>(% of Net Sales)</i>	-10.3	-3.8	0.3	4.3
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	<b>-26</b>	<b>-17</b>	<b>1</b>	<b>20</b>
<i>% chg</i>	(18)	(36)	(106)	1,960

Source: Company, Angel Research

## Consolidated Balance Sheet

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

Source: Company, Angel Research

### Cash flow

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E
Profit before tax	(2,671)	(1,287)	121	2,483
Depreciation	3,949	3,883	4,114	4,234
Change in Working Capital				
Interest / Dividend (Net)	3,441	3,866	3,866	3,866
Direct taxes paid	(503)	(240)	28	571
Others	2,582	(516)	(701)	(114)
<b>Cash Flow from Operations</b>	<b>6,799</b>	<b>5,706</b>	<b>7,427</b>	<b>11,040</b>
(Inc.)/ Dec. in Fixed Assets	(2,354)	(2,000)	(2,499)	(2,498)
(Inc.)/ Dec. in Investments	356	175	(46)	(45)
<b>Cash Flow from Investing</b>	<b>(1,998)</b>	<b>(1,825)</b>	<b>(2,545)</b>	<b>(2,543)</b>
Issue of Equity	0	1,200	-	-
Inc./(Dec.) in loans	-2875.18	-760.44	-374.00	-4462.00
Others	(2,181)	(4,305)	(4,516)	(3,946)
<b>Cash Flow from Financing</b>	<b>(5,057)</b>	<b>(3,866)</b>	<b>(4,890)</b>	<b>(8,408)</b>
Inc./(Dec.) in Cash	(256)	15	(8)	89
<b>Opening Cash balances</b>	<b>503</b>	<b>247</b>	<b>262</b>	<b>254</b>
<b>Closing Cash balances</b>	<b>247</b>	<b>263</b>	<b>254</b>	<b>344</b>

Source: Company, Angel Research

### Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
P/E (on FDEPS)	-	-	208.6	10.1
P/CEPS	10.9	6.8	4.6	3.1
P/BV	0.6	0.6	0.6	0.6
EV/Sales	2.9	2.1	1.6	1.2
EV/EBITDA	13.5	9.9	7.1	5.0
EV / Total Assets	0.8	0.8	0.7	0.7
<b>Per Share Data (Rs)</b>				
EPS (Basic)	-26.2	-16.8	1.0	19.8
EPS (fully diluted)	-25.0	-16.0	0.9	18.8
Cash EPS	18.4	29.3	43.5	63.5
DPS	0.0	0.0	0.0	0.0
Book Value	310	314	315	335
<b>Returns (%)</b>				
ROCE	0.6	2.9	5.7	9.5
Angel ROIC (Pre-tax)	0.6	2.8	5.3	8.6
ROE	-8.5	-5.3	0.3	5.9
<b>Turnover ratios (x)</b>				
Inventory / Sales (days)	64	67	65	60
Receivables (days)	31	25	25	25
Payables (days)	52	56	56	56
Working capital cycle (ex-cash) (days)	43	35	33	28

Source: Company, Angel Research

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4. Broking relationship with company covered under Research	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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