

Jindal Steel & Power

Performance Update

INR Cr.	Q4FY19	Q4FY18	% chg. (yoy)	Q3FY19	% chg. (qoq)
Total Income	10,026	8,692	15	9,514	5
Operating profit	1,844	2,230	-17.30	1,859	-1
OPM (%)	18.4	25.9	-748.6	19.5	-114
PAT	-2714	-333	NA	-307	783

Source: Company, Angel Research

For Q4FY2019, on consolidated basis, JSPL has reported 15% yoy growth to ₹10,026cr, primarily on account of robust performance in domestic steel business and improved realizations. However, during the quarter, raw material prices have increased substantially resulting in reduction of operating margin by 750bps to 18.5%. Operating profit has reduced by 17% yoy basis to ₹1,841cr. During the quarter, management has charged various one-time adjustments like (a) depreciation includes impairment of Australian mine due to downward revolution of asset worth ₹1260cr; (b) exceptional item of ₹1,733cr includes write-off of coal levy charges, write-off of industrial incentive and electricity duty benefits and shut down of Barbil Power plant, resulting in a loss of ₹2,714cr as against loss of ₹333cr in the corresponding quarter last year.

Going forward, we expect EBIDTA/tonne to sustain around ₹10,000/tonne owing to stable global steel prices, increasing domestic consumption of steel, internal operational efficiency on the back of further ramp-up of Angul plant.

JPL: During Q4FY2019, despite the low coal availability through e-auction, JPL as registered a growth of 5% yoy to ₹999cr vs. ₹947cr in the corresponding quarter last year. The company has generated 2,609 million units similar to that in corresponding quarter last year, resulting in flattish operating profit at ₹267cr.

Outlook & Valuation: Given the ongoing global trade concerns, we expect steel prices to remain volatile along with increasing iron ore prices due to Vale incidence. However, we project that domestic demand will continue to remain positive for steel and power sectors on long term basis, and expect JSPL to perform well in coming years along with the ramp-up of Angul plant and realizations in steel segment. We also anticipate that power segment will perform well on account of improving visibility of PPA (short and long term) and various efforts by Gol for availability of fuel to power generators. We maintain our Buy recommendation on JSPL with a Target Price of ₹250 with a potential upside of 64% over a period of next 9-12 months.

Key Financials

Y/E March (₹ cr)	FY18	FY19	FY20E	FY21E
Net Sales	27,383	39,372	45,561	47,450
% chg	34	44	16	4
EBIDTA	5,882	8,406	10,190	11,419
% chg	36	43	21	12
EBITDA (%)	21%	21%	22%	24%
EPS (Rs)	(17)	(25)	21	33
P/E (x)	-	(6.1)	7.1	4.5
P/BV (x)	0.5	0.5	0.5	0.4
RoE (%)	-	(8.6)	6.9	9.4
RoCE (%)	2.9	4.4	8.8	10.4
EV/EBITDA	9.1	5.8	4.4	3.6

Source: Company, Angel Research

Valuation done based on 23rd May, 2019 closing price

BUY

CMP	₹152
Target Price	₹249
Investment Period	12 Months

Stock Info

Sector	Steel & Power
Market Cap (₹ cr)	12,560
Net Debt (₹ cr)	38,518
Beta	1.9
52 Week High / Low	279/125
Avg. weekly Volume	976,539
Face Value (₹)	1
BSE Sensex	38,811
Nifty	11,657
Reuters Code	JNSP.BO
Bloomberg Code	JNSP IN

Shareholding Pattern (%)

Promoters	60.1
MF / Banks / Indian Fls	14.5
FII / NRIs / OCBs	16.1
Indian Public / Others	9.3

Abs.(%)	3m	1yr	3yr
Sensex	7.7	11.3	41.0
JSPL	1.4	(36.7)	11.5

3years performance chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2019 Performance

In Cr	Q4FY19	Q4FY18	Q3FY19	YOY %	QOQ%
Net Sales	10026	8616	9514	16.4%	5%
Total Income	10159	8692	9644	17%	5%
Total Expenditure	8314	6462	7786	29%	7%
Raw Material Consumed	3680	2993	3856	23%	-5%
Stock Adjustment	176	-50	78	-451%	124%
Purchase of Finished Goods	489	79	280	521%	75%
COGS	4345	3021	4357	44%	0%
Employee Expenses	279	238	269	17%	4%
Other Expenses	3623	3297	3222	10%	12%
Captive sales	68	-94	-63		
Raw Material Consumed	37%	35%	41%		
Stock Adjustment	2%	-1%	1%		
Purchase of Finished Goods	5%	1%	3%		
COGS	43%	35%	46%		
Gross Margin %	57%	65%	55%		
Employee Expenses	3%	3%	3%		
Other Expenses	36%	38%	34%		
EBITDA	1844	2230	1859	-17%	5%
Other Income	0.00	0.5	0.0	-100%	NA!
Interest	1163	1071	973	9%	20%
PBDT	681	1159	886	-41%	-23%
Depreciation	2373	960	1039	147%	128%
PBT	-1692	199	-153	-949%	1003%
Exceptional Item (gain)/loss	1734	438	0	NA	
Tax	-712	94	154	-854%	-18%
PAT	-2714	-333	-307	715%	24%
Ratios				BPS	BPS
EBITDA margin (%)	18.4	25.9	19.5	-749	-114
PAT margin %	0	0	-3.23	-23	296
Tax rate %	NA	47	NA	NA	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 FY2019, JPL had Power Purchase Agreement (PPA) of 1,020MW and it operates at 45-50% utilization.

Con-call highlights Q4FY2019

- Management has guided for further debt reduction of ₹8,000cr in FY2020, of which ₹5,000cr would come from operations and remaining ₹3,000cr will come from Monetization of assets. FY2019 debt stood at ₹39,084cr.
- Expect EBIDTA/tonne to improve by ₹1,000-1,500/tonnes due to operational efficiency primarily on account of ramp-up in Angul plant.
- Expect to receive USD150-200mn from disinvestment of African asset, USD100mn from Iron ore mine in Africa and USD200-300mn from part of OMAN business.
- Depreciation of ₹5,480cr includes ₹1,260cr impairment cost of Australian mine due to downward revolution of asset from AUD750mn to AUD252mn .
- Exceptional item includes 1) write-off of coal levy charges paid in December 2013 of ₹1274, ₹308cr against benefit promised by Chhattisgarh government through industrial incentive 2) Electricity duty, but later on the decision was withdrawn and 3) ₹71cr on account of shut down of Barbil Power plant.
- Total capex outlay for FY20 would be near ₹1,000cr.
- Increase in finance cost due to rise in interest cost and interest pertaining to LC discounting.
- Management expects to participate in upcoming iron mine auction, which may start very soon for arrangement of mines on account of expiry of mining license.
- In Rail segment, JSPL is running at 85% utilization (0.7mn capacity) and expects to increase the capacity to close to 1 million tonne. Rail segments have seen higher realization of 20% on new orders as compared to previous orders.
- Expect 515MW of PPA from NHPC currently, JPL emerged as L1 bidder.
- From April 2019, power segment has seen improvement in PLF and now producing 1,700 megawatts, up from the average 1,400 megawatts, this will lead improvement in PLF from 34% to 50%.
- Management believes this can also improve further once NHPC aggregation tender starts by October where JPL is L1 bidder.
- In recent development, TANGEDCO will start paying its dues to JPL for the change in Law.
- In another development, TANGEDCO has started paying JPL dues, which JPL filed last year.

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 ₹250.

Exhibit 2: Asset Based SOTP Valuation

Segments	Capacity	Multiple (X)	Total INR Cr.
Power- (EV/MW)*	3,400	4	13,600
Steel- (EV/Tone)#	10.6	4,800	50,880
Consol Enterprise Value (A)			64,480
Add			
CWIP (B)			2,905
Cash (c)			421
Subtotal (D)=A+B+C			67,806
Less			
Debt FY19 (E)			39,084
Equity Value (F)= (D)-(E)			25,396
No of share cr (G) ^			102
Value per share INR (F)/(G)			250
CMP			152
Upside			61%

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 12% discount to JSW Energy's EV ₹4.6cr/MW.

Valuing the steel segment by applying multiple of ₹4,800cr/MTPA at 19% discount to JSW Steel's EV/tonne of ₹5,907cr/MTPA.

Exhibit 3: Peer Asset Valuation

Particular	JSW steel	Tata Steel	JSW Energy
EV/Tonne	5,907	5,133	
EV/MW			4.5
Crude steel Capacity (MTPA)	18	28	
Power Generation Capacity (MW)			4,451

Source: Company, Angel Research

Income Statement

Y/E March (₹ cr)	FY18	FY19	FY20E	FY21E
Total operating income	27,383	39,372	45,561	47,450
% chg	30	44	16	4
Total Expenditure	21,502	30,967	35,372	36,031
Raw Material	9,378	15,274	15,079	15,720
Personnel	956	1,072	1,591	1,591
Purchase of finished goods	324	1,186	451	470
Others Expenses	10,843	13,434	18,251	18,251
EBIDTA	5,882	8,406	10,190	11,419
% chg	36	43	21	12
(% of Net Sales)	21.5	21.3	22.4	24.1
Depreciation & Amortization	3,883	5,480	4,444	4,689
EBIT	1,999	2,925	5,745	6,729
% chg	415	46	96	17
(% of Net Sales)	7	7	13	14
Interest & other Charges	3,866	4,264	3,065	2,537
Other Income	3	16	16	16
Extraordinary Items	(577)	1,478	-	1
Recurring PBT	-1,287	-2,801	2,696	4,207
% chg	(52)	118	(196)	56
Tax	-240	-390	620	968
PAT (reported)	-1,047	-2,411	2,076	3,239
% chg	(52)	130	(186)	56
(% of Net Sales)	-3.8	-6.1	4.6	6.8
Basic & Fully Diluted EPS (Rs)	-17	-25	21	33
% chg	(36)	48	(186)	56

Source: Company, Angel Research

Balance sheet

Y/E March (₹ cr)	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS				
Equity Share Capital	97	97	97	97
Reserves & Surplus	30,283	32,326	34,402	37,643
Shareholders Funds	30,380	32,423	34,499	37,739
Equity Share warrant	5	5	5	5
Minority Interest	440	-301	-301	-301
Total Loans	39,198	34,766	30,824	26,824
Other Liabilities	6,074	6,115	5,901	5,940
Total Liabilities	76097	73008	70928	70207
APPLICATION OF FUNDS				
Net Block	69,550	70,745	68,689	68,103
Capital Work-in-Progress	3,877	2,905	2,064	2,064
Investments	146	150	150	146
Long Term Loans & Advances	-	-	-	-
Current Assets	14,313	14,306	16,311	16,869
Inventories	4,960	6,510	7,408	7,851
Sundry Debtors	1,826	3,029	3,488	3,636
Cash & Cash Equivalent	468	421	543	233
Loans & Advances	6,589	4,089	4,507	4,698
Investments & Others	471	257	365	450
Current liabilities	13,133	16,578	18,088	18,854
Net Current Assets	1,180	-2,271	-1,778	-1,985
Other Non Current Asset	1,343	1,479	1,803	1,879
Total Assets	76097	73007	70928	70207

Source: Company, Angel Research

Cash Flow

Y/E March (₹ cr)	FY18	FY19	FY20E	FY21E
Profit before tax	(1,287)	(2,801)	2,696	4,207
Depreciation	3,883	5,480	4,444	4,689
Change in Working Capital				
Interest / Dividend (Net)	3,866	4,264	3,065	2,537
Direct taxes paid	(240)	(390)	620	968
Others	(516)	792	(341)	318
Cash Flow from Operations	5,706	7,345	10,484	12,720
(Inc.)/ Dec. in Fixed Assets	(2,000)	(2,828)	(4,998)	(4,997)
(Inc.)/ Dec. in Investments	175	(46)	(500)	(496)
Cash Flow from Investing	(1,825)	(1,903)	(5,498)	(5,493)
Issue of Equity	1,220	-	-	-
Inc./(Dec.) in loans	-760	-4432	-5000	-5000
Others	(4,325)	(851)	135	(2,537)
Cash Flow from Financing	(3,866)	(5,283)	(4,865)	(7,537)
Inc./(Dec.) in Cash	15	159	122	(310)
Opening Cash balances	247	262	421	543
Closing Cash balances	263	421	543	233

Source: Company, Angel Research

Key Ratios

Y/E March	FY18	FY19	FY20E	FY21E
P/E (on FDEPS)	-	-6.1	7.1	4.5
P/CEPS	5.2	4.8	2.3	1.9
P/BV	0.5	0.5	0.5	0.4
EV/Sales	2.0	1.2	1.0	0.9
EV/EBITDA	9.1	5.8	4.4	3.6
EV / Total Assets	0.7	0.7	0.6	0.6
Per Share Data (Rs)				
EPS (Basic)	-16.8	-24.9	21.4	33.5
EPS (fully diluted)	-16.0	-23.7	20.4	31.6
Cash EPS	29.3	31.7	67.4	81.9
DPS	0.0	0.0	0.0	0.0
Book Value	314	289	310	356
Returns (%)				
ROCE	2.9	4.4	8.8	10.4
Angel ROIC (Pre-tax)	2.8	4.2	8.4	9.9
ROE	-5.3	-8.6	6.9	9.4
Turnover ratios (x)				
Inventory / Sales (days)	67	61	60	61
Receivables (days)	25	28	28	28
Payables (days)	56	49	49	49
Working capital cycle (ex-cash) (days)	35	40	40	41

Source: Company, Angel Research

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3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No