Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Jindal Steel & Power (JSP IN)

Rating: BUY | CMP: Rs400 | TP: Rs500

August 11, 2021

Q1FY22 Result Update

■ Change in Estimates | ■ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	**BUY**		**ACCUMULATE**	
Target Price	**500**		**500**	
Sales (Rs. m)	5,11,958	4,86,954	5,11,958	4,86,954
% Chng.	-	-		
EBITDA (Rs. m)	1,65,986	1,15,634	1,65,986	1,15,634
% Chng.	-	-		
EPS (Rs.)	70.5	37.6	70.5	37.6
% Chng.	-	-		

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	3,70,129	4,53,330	5,11,958	4,86,954
EBITDA (Rs. m)	78,539	1,50,162	1,65,986	1,15,634
Margin (%)	*21.2*	*33.1*	*32.4*	*23.7*
PAT (Rs. m)	(1,486)	73,308	71,956	38,368
EPS (Rs.)	(1.5)	71.9	70.5	37.6
Gr. (%)	*67.6*	*(5,033.6)*	*(1.8)*	*(46.7)*
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	*(0.5)*	*21.0*	*17.4*	*8.2*
RoCE (%)	*5.7*	*16.1*	*18.3*	*10.8*
EV/Sales (x)	2.1	1.5	1.2	1.2
EV/EBITDA (x)	9.8	4.6	3.6	5.0
PE (x)	(274.9)	5.6	5.7	10.6
P/BV (x)	1.3	1.1	0.9	0.8

Key Data	JNSP.BO | JSP IN
52-W High / Low	Rs.502 / Rs.160
Sensex / Nifty	54,555 / 16,280
Market Cap	Rs.408bn/ $ 5,488m
Shares Outstanding	1,020m
3M Avg. Daily Value	Rs.10263.58m

Shareholding Pattern (%)

Promoter's	60.47
Foreign	10.54
Domestic Institution	14.50
Public & Others	14.49
Promoter Pledge (Rs bn)	101.89

Stock Performance (%)

	1M	6M	12M
Absolute	1.4	28.6	98.6
Relative	(2.6)	20.9	39.0

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Beat on margins; Underperformance, valuations and fall in iron ore drives upgrade

Quick Pointers:

- Net Debt reduced by 31% QoQ/Rs6.9bn to Rs152.3bn due to deconsolidation of Jindal Power Ltd (JPL) as it is classified as asset held for sale.
- Target to reduce net debt to Rs80bn by end of FY22
- Zero cost iron ore inventory fully exhausted in the quarter

Jindal steel & Power (JSP) reported Q1FY22 EBITDA above our/consensus estimates by 7%. The beat was primarily on count of higher realisations. EBITDA/t increased by 10% QoQ/Rs2,525 to Rs28,100, above our estimate of Rs26,075.

JSP reduced net debt by 73%/Rs303bn (including cash of Rs30.4bn to be received on closure of JPL deal) since FY17 through free cash flow generation and divestment of Oman steel operations and JPL. 55% of the total reduction was contributed by divestments (49%) and issuance of equity (6%) while rest through operating cash flows. Resultantly, current Net debt/EBITDA fell to comfortable level of 1.3x on normalised earnings assumed in FY23e with EBITDA margins at Rs12,000/t. JSP underperformed its peers by an average of 40% over last four months due to concerns on JPL deal and pressure on margins due to high iron ore prices and softness in long product's prices. Recent weakness in iron ore prices allays the concerns on iron ore cost to a large extent while long product prices would improve as activity picks up post monsoon. Given the stock's underperformance, attractive valuations and strong B/S, we upgrade our rating on stock to BUY with TP of Rs500, EV/EBITDA of 5.5x.

- **Better than expected realisations led the beat:** Domestic steel volumes fell 16% QoQ at 1.61mnt (PLe:1.62mnt). Blended realisations increased 18% QoQ/Rs9,900 at Rs64,500, above our estimate of Rs60,105. While Cost increased 25% QoQ/Rs7,365 at Rs36,400/t, higher than our estimate of Rs34,030 due to higher other expenses. Due to fall in volumes, EBITDA declined 9% QoQ at Rs45.4bn (PLe:Rs42.4). Consolidated PAT fell 13% QoQ at Rs25.4bn (PLe:Rs22.3bn).
- **Key highlights of con-call: 1)** Capex guidance for FY22e at Rs20-25bn **2)** Merchant miners have reduced iron ore prices by Rs2,000/t in Q2 **3)** Would start coking coal production in Australia by January-2022 at output run rate of 1-1.5mtpa and would increase to 3.0mtpa in FY23e **4)** Target to increase share of coking coal to 45% (34% currently) from own overseas mines **5)** Exploring options to introduce downstream products with foray in to Cold Rolled, Galvanised, Color coated and pipes segments **6)** Would also diversify into specialty steel products including steel sheets for railways, containers, specialty rails, specialty plates for shipbuilding and warships

Exhibit 1: Q1FY22 Result Overview (Rs m)

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY22E	FY21	YoY gr. (%)
Net Sales	**1,06,095**	**63,973**	***65.8***	**1,05,937**	**5,11,958**	**3,65,084**	***40.2***
Raw Material	28,968	24,911	*16.3*	27,622	1,42,475	1,07,406	*32.7*
% of Net Sales	*27.3*	*38.9*		*26.1*	*27.8*	*29.4*	
Staff Costs	2,218	2,078	*6.7*	2,021	7,434	8,621	*(13.8)*
% of Net Sales	*2.1*	*3.2*		*1.9*	*1.5*	*2.4*	
Other Expenses	29,712	20,217	*47.0*	26,731	1,96,063	1,13,424	*72.9*
% of Net Sales	*28.0*	*31.6*		*25.2*	*38.3*	*31.1*	
Cost of captive sales	(193)	(127)	*NA*	(73)		(384)	*(100.0)*
% of Net Sales	*(0.2)*	*(0.2)*		*(0.1)*	*-*	*(0.1)*	
Total Expenditure	60,706	47,079	*28.9*	56,301	3,45,973	2,29,067	*51.0*
EBITDA	**45,390**	**16,893**	***168.7***	**49,636**	**1,65,986**	**1,36,018**	***22.0***
Margin (%)	*42.8*	*26.4*		*46.9*	*32.4*	*37.3*	
Depreciation	6,022	6,060	*(0.6)*	5,881	39,562	29,364	*34.7*
Other income	337	18	*-*	208	13	445	*-*
EBIT	**39,704**	**10,851**	*265.9*	**43,963**	**1,26,436**	**1,07,098**	***18.1***
Interest	5,608	8,340	*(32.8)*	5,757	31,169	29,361	*6.2*
PBT	**34,096**	**2,511**	***NA***	**38,206**	**95,267**	**77,737**	***NA***
Extraordinary income/(expense)	-	1,203		(321)	-	4,131	
PBT (After EO)	34,096	3,714	*NA*	37,885	95,267	81,868	*NA*
Tax	8,939	1,357	*NA*	9,200	25,503	17,471	*NA*
% PBT	*26.2*	*36.5*		*24.3*	*26.8*	*21.3*	
Reported PAT	**25,157**	**2,357**	***NA***	**28,685**	**69,763**	**64,398**	***NA***
Minority interest	(275)	825	*NA*	(331)	(2,193)	2,875	*NA*
Net profit attributable to shareholders	25,433	1,532	*NA*	29,016	71,956	61,522	*NA*
Adjusted PAT attributable to shareholders	**25,433**	**329**	***NA***	**29,259**	**71,956**	**57,391**	***NA***

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY22E	FY21	YoY gr. (%)
Standalone operations							
Steel products (tonnes)	1,610	1,560	*3.2*	1,910	7,672	7,270	*5.5*
Revenue (Rs mn)	1,03,846	61,605	*68.6*	1,04,298	3,85,411	3,31,817	*16.2*
EBITDA (Rs mn)	45,237	17,080	*164.9*	48,840	1,41,217	1,29,292	*9.2*
Per tonne	*28,098*	*10,949*	*156.6*	*25,571*	*18,407*	*17,784*	*3.5*
Reported PAT (Rs mn)	26,608	5,047	*-*	34,264	74,081	71,547	*-*
Adjusted PAT (Rs mn)	26,608	3,845	*-*	34,264	74,081	72,004	*-*

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	**3,70,129**	**4,53,330**	**5,11,958**	**4,86,954**
YoY gr. (%)	*(6.3)*	*22.5*	*12.9*	*(4.9)*
Cost of Goods Sold	2,91,590	3,03,168	3,45,973	3,71,321
Gross Profit	78,539	1,50,162	1,65,986	1,15,634
Margin (%)	*21.2*	*33.1*	*32.4*	*23.7*
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	**78,539**	**1,50,162**	**1,65,986**	**1,15,634**
YoY gr. (%)	*(6.6)*	*91.2*	*10.5*	*(30.3)*
Margin (%)	*21.2*	*33.1*	*32.4*	*23.7*
Depreciation and Amortization	38,672	39,906	39,562	39,573
EBIT	**39,867**	**1,10,256**	**1,26,423**	**76,060**
Margin (%)	*10.8*	*24.3*	*24.7*	*15.6*
Net Interest	41,493	36,601	31,169	27,885
Other Income	262	13	13	1,810
Profit Before Tax	**(2,458)**	**79,780**	**95,267**	**49,985**
Margin (%)	*(0.7)*	*17.6*	*18.6*	*10.3*
Total Tax	1,539	25,910	25,503	13,781
Effective tax rate (%)	*(62.6)*	*32.5*	*26.8*	*27.6*
Profit after tax	**(3,997)**	**53,869**	**69,763**	**36,205**
Minority interest	(2,905)	(2,812)	(2,193)	(2,164)
Share Profit from Associate	-	-	-	-
Adjusted PAT	**(1,486)**	**73,308**	**71,956**	**38,368**
YoY gr. (%)	*68.3*	*(5,033.6)*	*(1.8)*	*(46.7)*
Margin (%)	*(0.4)*	*16.2*	*14.1*	*7.9*
Extra Ord. Income / (Exp)	(1,094)	6,112	-	-
Reported PAT	**(1,092)**	**56,681**	**71,956**	**38,368**
YoY gr. (%)	*(93.4)*	*(5,292.0)*	*26.9*	*(46.7)*
Margin (%)	*(0.3)*	*12.5*	*14.1*	*7.9*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(1,092)	56,681	71,956	38,368
Equity Shares O/s (m)	**1,020**	**1,020**	**1,020**	**1,020**
EPS (Rs)	**(1.5)**	**71.9**	**70.5**	**37.6**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	**9,48,161**	**9,57,561**	**9,67,961**	**9,77,561**
Tangibles	9,48,161	9,57,561	9,67,961	9,77,561
Intangibles	-	-	-	-
Acc: Dep / Amortization	**2,60,443**	**3,00,348**	**3,39,911**	**3,79,484**
Tangibles	2,60,443	3,00,348	3,39,911	3,79,484
Intangibles	-	-	-	-
Net fixed assets	**6,87,718**	**6,57,212**	**6,28,050**	**5,98,077**
Tangibles	6,87,718	6,57,212	6,28,050	5,98,077
Intangibles	-	-	-	-
Capital Work In Progress	38,713	38,871	60,647	1,07,422
Goodwill	6,098	6,098	6,098	6,098
Non-Current Investments	2,024	2,024	2,024	2,024
Net Deferred tax assets	(56,226)	(81,776)	(91,781)	(94,586)
Other Non-Current Assets	2,877	2,877	2,877	2,877
Current Assets				
Investments	376	376	376	376
Inventories	63,687	69,368	75,464	73,013
Trade receivables	35,493	44,725	40,956	37,778
Cash & Bank Balance	9,143	16,662	52,024	54,854
Other Current Assets	44,577	41,095	48,135	45,920
Total Assets	**8,97,419**	**8,86,022**	**9,23,365**	**9,35,152**
Equity				
Equity Share Capital	1,020	1,020	1,020	1,020
Other Equity	3,20,351	3,77,033	4,48,989	4,87,357
Total Networth	**3,21,371**	**3,78,053**	**4,50,009**	**4,88,377**
Non-Current Liabilities				
Long Term borrowings	3,68,244	3,03,335	2,48,335	2,28,335
Provisions	2,966	2,966	2,966	2,966
Other non current liabilities	6	6	6	6
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	55,772	47,709	57,686	54,503
Other current liabilities	87,482	70,886	74,971	72,182
Total Equity & Liabilities	**8,97,420**	**8,86,022**	**9,23,365**	**9,35,152**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	(2,458)	74,870	-	-
Add. Depreciation	38,672	39,906	39,562	39,573
Add. Interest	41,493	36,601	31,169	27,885
Less Financial Other Income	262	13	13	1,810
Add. Other	2,396	(13)	(13)	(1,810)
Op. profit before WC changes	80,103	1,51,364	70,719	65,649
Net Changes-WC	15,127	(36,089)	4,457	1,873
Direct tax	35	(360)	(15,498)	(10,976)
Net cash from Op. activities	**95,264**	**1,14,915**	**59,677**	**56,545**
Capital expenditures	(16,307)	(9,558)	(32,176)	(56,375)
Interest / Dividend Income	-	-	-	-
Others	308	13	13	1,810
Net Cash from Invt. activities	**(15,999)**	**(9,545)**	**(32,163)**	**(54,565)**
Issue of share cap. / premium	5,051	-	-	-
Debt changes	(38,507)	(60,000)	(55,000)	(20,000)
Dividend paid	-	-	-	-
Interest paid	(40,054)	(36,601)	(31,169)	(27,885)
Others	(2,109)	(1,250)	(1,250)	(1,250)
Net cash from Fin. activities	**(75,620)**	**(97,851)**	**(87,419)**	**(49,135)**
Net change in cash	**3,646**	**7,519**	**(59,905)**	**(47,155)**
Free Cash Flow	78,619	1,05,357	27,502	170

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	(1.5)	71.9	70.5	37.6
CEPS	36.5	111.0	109.3	76.4
BVPS	315.1	370.6	441.2	478.8
FCF	77.1	103.3	27.0	0.2
DPS	-	-	-	-
Return Ratio(%)				
RoCE	5.7	16.1	18.3	10.8
ROIC	9.3	11.1	14.5	8.4
RoE	(0.5)	21.0	17.4	8.2
Balance Sheet				
Net Debt : Equity (x)	1.1	0.8	0.4	0.4
Net Working Capital (Days)	43	53	42	42
Valuation(x)				
PER	(274.9)	5.6	5.7	10.6
P/B	1.3	1.1	0.9	0.8
P/CEPS	11.0	3.6	3.7	5.2
EV/EBITDA	9.8	4.6	3.6	5.0
EV/Sales	2.1	1.5	1.2	1.2
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	**89,839**	**1,05,335**	**1,05,937**	**1,06,095**
YoY gr. (%)	*16.9*	*40.0*	*55.9*	*65.8*
Raw Material Expenses	29,258	25,615	27,622	28,968
Gross Profit	60,581	79,720	78,315	77,127
Margin (%)	*67.4*	*75.7*	*73.9*	*72.7*
EBITDA	**26,964**	**42,524**	**49,636**	**45,390**
YoY gr. (%)	*77.6*	*170.1*	*186.9*	*168.7*
Margin (%)	*30.0*	*40.4*	*46.9*	*42.8*
Depreciation / Depletion	8,729	8,695	5,881	6,022
EBIT	**18,235**	**33,829**	**43,755**	**39,367**
Margin (%)	*20.3*	*32.1*	*41.3*	*37.1*
Net Interest	7,981	7,283	5,757	5,608
Other Income	224	(5)	208	337
Profit before Tax	**11,789**	**28,480**	**37,885**	**34,096**
Margin (%)	*13.1*	*27.0*	*35.8*	*32.1*
Total Tax	2,756	4,158	9,200	8,939
Effective tax rate (%)	*23.4*	*14.6*	*24.3*	*26.2*
Profit after Tax	**9,033**	**24,322**	**28,685**	**25,157**
Minority interest	606	1,775	(331)	(275)
Share Profit from Associates	-	-	-	-
Adjusted PAT	**7,117**	**20,608**	**29,337**	**25,433**
YoY gr. (%)	*(420.8)*	*(883.4)*	*(2,69,248.6)*	*7,618.5*
Margin (%)	*7.9*	*19.6*	*27.7*	*24.0*
Extra Ord. Income / (Exp)	1,311	1,939	(321)	-
Reported PAT	**8,427**	**22,547**	**29,016**	**25,433**
YoY gr. (%)	*(479.9)*	*(957.1)*	*1,488.0*	*1,560.1*
Margin (%)	*9.4*	*21.4*	*27.4*	*24.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**8,427**	**22,547**	**29,016**	**25,433**
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	**-**	**-**	**-**	**-**

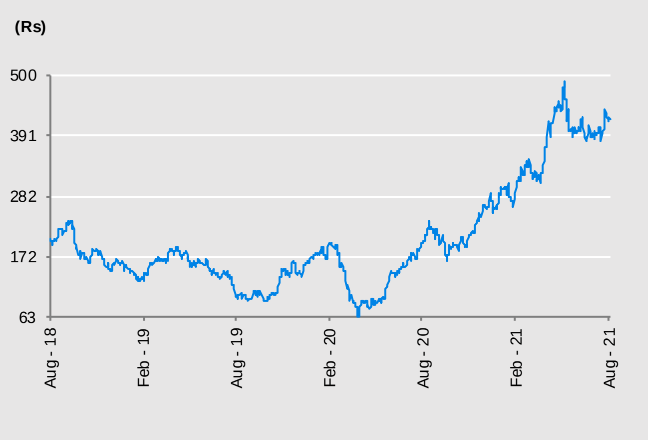
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Standalone operations				
Metallics Sales (Tonnes)			1,89,300	39,708
Steel Prod. Sales (Tonnes)	60,60,000	72,24,009	74,82,625	75,63,434
Steel Sales Vol. (Tonnes)	60,60,000	72,24,009	76,71,925	76,03,142
Real. / tn-Steel	38,778	36,013	40,577	36,532
JSPL-Pwr (m kwh)			896	762
JSPL-Real/ Kwh	3	3	3	3
Stdalon Steel EBITDA(Rs m)	57,773	1,29,291	1,40,948	90,588
Stdalon Pwr EBITDA(Rs m)			269	229
Stdalon Total EBITDA (Rs m)	57,773	1,29,291	1,41,217	90,817
Stdalon PAT (Rs m)	6,177	59,465	74,081	38,797
Jindal Power Ltd				
JPL-Kwh sold (m)	10,128	11,733	12,712	15,011
JPL-Rate / Kwh	4	3	3	3
JPL-EBITDA(Rsm)	12,468	14,838	15,851	15,949
JPL-PAT (Rs m)	(5,082)	(1,038)	16,316	17,131
Shadeed iron and Steel				
Shadeed EBITDA (US$ m)	138	117	148	143
PAT (US$ m)			57	52

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-21	Accumulate	500	387
2	13-May-21	Accumulate	500	457
3	29-Apr-21	Accumulate	500	444
4	22-Jan-21	BUY	400	282
5	13-Jan-21	BUY	400	294
6	02-Nov-20	BUY	260	191
7	09-Oct-20	BUY	260	195

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	2,460	2,152
2	Ambuja Cement	BUY	460	402
3	Coal India	Hold	160	146
4	Dalmia Bharat	Accumulate	2,300	2,148
5	Heidelberg Cement India	Reduce	225	261
6	Hindalco Industries	BUY	500	442
7	Hindustan Zinc	Reduce	271	331
8	Jindal Steel & Power	Accumulate	500	387
9	JK Lakshmi Cement	Hold	690	692
10	JSW Steel	Accumulate	810	718
11	NMDC	Accumulate	175	167
12	Shree Cement	Hold	28,400	28,250
13	Steel Authority of India	Accumulate	170	141
14	Tata Steel	Accumulate	1,400	1,190
15	The Ramco Cements	Reduce	980	1,060
16	Ultratech Cement	BUY	8,600	7,459

PL's Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

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