

Jindal Steel & Power

BUY

EBITDA lower QoQ but deleveraging continues

Summary

Jindal Steel & Power (JSPL) reported lower than expected Q1FY22 EBITDA on weaker than expected sales volumes. Its standalone EBITDA decreased 7% QoQ to Rs45 bn as its volumes fell 16% to 1.6 mn tonnes. Exports contributed 34% to its sales in 1QFY22 compared to 27% in Q1FY21 as lockdown affected domestic demand. Nevertheless, its net debt fell to Rs152 bn as of June 30, compared to Rs221 bn as of March 31 which is a strong positive.

Given weaker than expected EBITDA reported in Q1FY22, we lower our FY22 EBITDA estimate by 11%. We also lower our FY23 EBITDA forecast by 5% and hence our revised SOTP-based target price is lowered to Rs538 (earlier Rs609).

Key Highlights and Investment Rationale

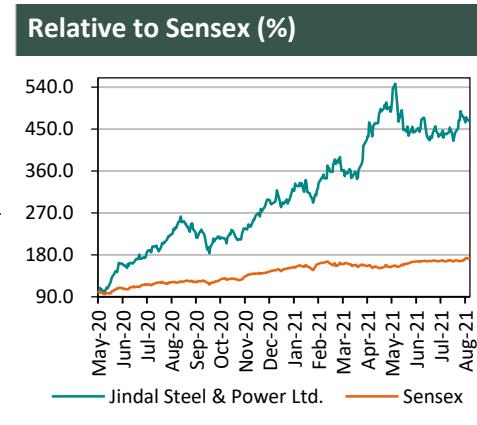
- Volumes affected but EBTIDA/tonne strong:** Weak domestic demand impacted its sales volumes (-16% QoQ to 1.6 mn tonnes) despite flattish production (-3% to 2 mn tonnes). Nevertheless, its EBTIDA/tonne increased to all-time high at Rs28,098/tonne (+10% QoQ).
- Deleveraging to continue; expansion provides growth visibility:** JSPL announced its intention to become net debt free by sweating its assets. JSPL also plans a 200 km slurry pipeline between Barbil-Angul to reduce iron ore logistic costs and generate additional cash flows from pellet sales (by September 2023).
- Outlook: Although JSPL reported weaker than expected Q1FY22 EBTIDA its visibility on growth remains strong backed by strong balance sheet and proven execution.** Looking ahead, it will continue to deleverage balance sheet as it benefits from a strong steel cycle. Its newly announced expansion projects provide clarity on capital allocation and growth visibility. We believe JSPL stock is likely to be a re-rating candidate over coming few years as 1) it completes sale of Power business (Jindal Power), 2) it continues to reduce debt, and 3) it expands steel capacities.

TP CMP	Rs538	
Potential upside / downside	Rs401	
V/s Consensus		
EBITDA (Rs bn)	FY22E	FY23E
IDBI Capital	178.3	163.1
Consensus	156.7	128.4
% difference	13.7	27.1

Shareholding Pattern (%)		
	-1m	-3m
Promoters	60.5	
FII	10.5	
DII	14.5	
Public	14.5	

Price Performance (%)		
	-1m	-3m
Absolute	1.6	(16.6)
Rel to Sensex	(2.6)	(27.4)
		57.5

Key Stock Data	
Bloomberg / Reuters	JSP IN / JNSP.BO
Sector	Metal & Mining
Shares o/s (mn)	1,020
Market cap. (Rs mn)	408,771
Market cap. (US\$ mn)	5,902
3-m daily average value (Rs mn)	1,278.3
52-week high / low	Rs502 / 160
Sensex / Nifty	54,555 / 16,280



Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	3,93,721	3,69,175	3,89,886	5,21,599	4,68,034
EBITDA	84,056	78,539	1,44,443	1,78,258	1,63,128
EBITDA (%)	21.3	21.3	37.0	34.2	34.9
Adj. PAT	(1,669)	2	66,678	1,00,256	87,186
EPS (Rs)	(1.7)	0.0	65.4	98.3	85.5
EPS Growth (%)	(79.7)	nm	nm	50.4	(13.0)
PE (x)	(232.4)	nm	6.1	4.1	4.7
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	8.7	9.6	3.9	3.2	3.1
RoE (%)	(0.5)	0.0	20.9	27.2	18.9
RoCE (%)	3.9	5.5	16.7	23.2	19.5

Source: IDBI Capital Research;

Exhibit 1: Quarterly Snapshot

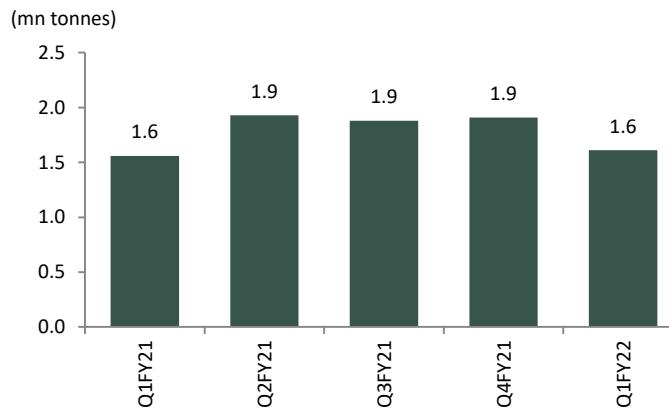
Financial snapshot	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	(Rs mn) YoY (%)
Net Sales	1,06,095	1,05,937	0.1	65,193	62.7
Total expenditure	60,706	56,301	7.8	47,079	28.9
EBITDA	45,390	49,636	(8.6)	18,113	150.6
<i>EBITDA margin (%)</i>	42.8	46.9	-407bps	27.8	1500bps
Interest	5,608	5,757	(2.6)	8,340	(32.8)
Depreciation	6,022	5,881	2.4	6,060	(0.6)
PBT	34,096	37,885	(10.0)	3,731	813.8
Tax	8,939	9,200	(2.8)	1,357	558.9
PAT	25,157	28,685	(12.3)	2,375	959.4
Diluted EPS	26.0	29.9	(13.0)	2.5	959.4

Source: Company; IDBI Capital Research

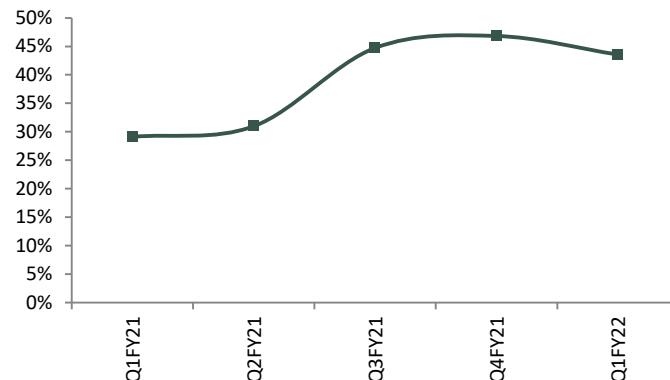
Exhibit 2: Actual vs estimates

	Q1FY22E	Q1FY22A	% Variance
Net sales	1,24,765	1,06,095	(15.0)
EBTIDA	56,655	45,390	(19.9)
<i>Margin (%)</i>	45.4	42.8	-263bps
PAT	34,036	25,157	(26.1)
Dil. EPS	35.2	26.0	(26.1)

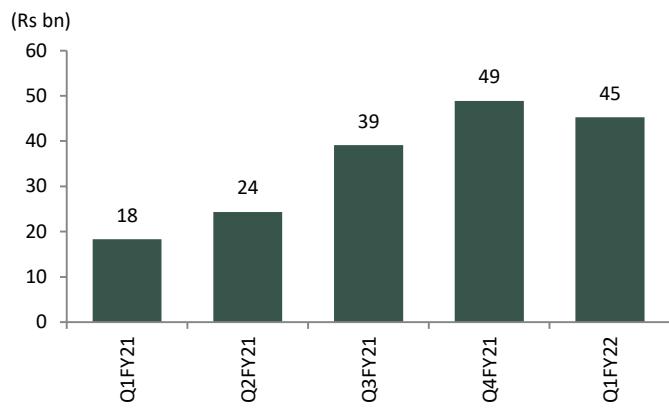
Source: Company; IDBI Capital Research

Exhibit 3: Standalone steel volumes flat YoY

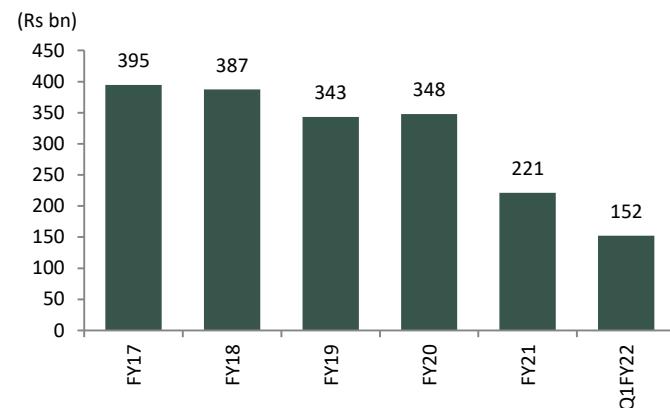
Source: Company; IDBI Capital Research

Exhibit 4: Standalone EBIDTA margin increased YoY

Source: Company; IDBI Capital Research

Exhibit 5: Standalone EBIDTA jumps up sharply YoY

Source: Company; IDBI Capital Research

Exhibit 6: Net debt fell sharply in Q1FY22

Source: Company; IDBI Capital Research

Exhibit 7: Change in estimates

	FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	4,67,046	5,21,599	11.7	4,35,234	4,68,034	7.5
EBITDA (Rs mn)	1,99,779	1,78,258	(10.8)	1,71,868	1,63,128	(5.1)
EBITDA margin (%)	42.8	34.2	-862bps	39.5	34.9	-465bps
Net profit (Rs mn)	1,16,562	1,00,256	(14.0)	94,060	87,186	(7.3)
EPS (Rs)	114.3	98.3	(14.0)	92.2	85.5	(7.3)

Source: Company; IDBI Capital Research

Exhibit 8: SOTP-based valuation (Rs bn)

	FY23 EBITDA	Multiple (x)	Value
Steel business EBITDA	149	4.5	670
Power business	14	4.0	57
Other international businesses			(88)
Derived enterprise value			638
Less: net debt			90
Derived equity value			549
Target price (Rs/share)			538

Source: Company data; IDBI Capital Research

Concall Highlights

- In Q1FY22 realization have up by Rs10,000/tonne but simultaneously the cost have gone by Rs7,500/tonnes. Therefore the overall impact on realization is Rs2,500/tonne. Also export is the major contributor to better realization in Q1FY22.
- Sales volume were lower 16% on QoQ to 1.6 mn tonnes due to disruption in logistic.
- Company has preferences from government for buying iron ore from OMC's it has long term agreement with iron ore merchants. Hence iron ore availability is not an issue because company sources from merchant miners, OMC and NMDC.
- Iron ore prices have increased from Rs6,000/tonne to Rs11,000/tonnes, but at present price have come down to \$160/tonne from \$220/tonne in international market. This has forced domestic iron ore merchant to reduce the price, hence Rs2,000/tonne price reduction is passed to steel mills which will have effect in Q2FY22.
- Company maintains 2.5- 3 mn tonnes of iron ore inventory.
- In FY21 NSR was lower because 75% was exports, but in FY22 because of international spot market NSR is improved from Rs42,000/tonnes to Rs63,000/tonne across all products.
- JSPL is open for any kind of strategic alliance, mergers & acquisition.
- In Angul expansion company has plan to invest Rs180 bn. Government of India has already cleared company's business plan to produce Rs 25 mn tonnes of steel at Angul.
- Company income tax rate will be below 25%.
- Company is diversifying product portfolio by adding hot strip mill as power integration, specialty hot rolled coil and specialty plates and is also working on downstream HRC plant that is coal rolling, galvanizing and colour coding and pipes. In FY24 company will be in this new product line.
- Net debt is expected to be Rs 80 bn by FY22.
- Capex, guidance is Rs 20-25 bn in FY22.
- Company has booked coking coal at lower price till September 2021; Also 44% 45% of coking is procured from captive mines in Mozambique and South Africa.
- Domestic steel prices are at 10-20% discount of international steel price.

Financial Summary

Profit & Loss Account					(Rs mn)	Cash Flow Statement					(Rs mn)
Year-end: March	FY20	FY21	FY22E	FY23E		Year-end: March	FY20	FY21	FY22E	FY23E	
Net sales	3,69,175	3,89,886	5,21,599	4,68,034		Pre-tax profit	(2,458)	72,956	1,28,534	1,16,249	
<i>Growth (%)</i>	(6.2)	5.6	33.8	(10.3)		Depreciation	38,672	36,260	36,260	36,623	
Operating expenses	(2,90,636)	(2,45,444)	(3,43,341)	(3,04,906)		Tax paid	1,044	(11,519)	(28,277)	(29,062)	
EBITDA	78,539	1,44,443	1,78,258	1,63,128		Chg in working capital	(1,777)	31,999	(85,635)	(10,901)	
<i>Growth (%)</i>	-6.6	83.9	23.4	-8.5		Other operating activities	(10,221)	(53,543)	(4,419)	(4,860)	
Depreciation	(38,672)	(34,533)	(36,260)	(36,623)		Cash flow from operations (a)	25,260	76,153	46,462	1,08,048	
EBIT	39,867	1,09,909	1,41,998	1,26,505		Capital expenditure	(27,301)	1,28,199	(50,154)	(40,000)	
Interest paid	(41,493)	(30,933)	(19,285)	(16,194)		Chg in investments	(297)	(9,750)	-	-	
Other income	262	5,389	5,820	5,937		Other investing activities	-	-	-	-	
Pre-tax profit	(2,458)	72,956	1,28,534	1,16,249		Cash flow from investing (b)	(27,599)	1,18,450	(50,154)	(40,000)	
Tax	(1,539)	(17,687)	(28,277)	(29,062)		Equity raised/(repaid)	52	-	-	-	
<i>Effective tax rate (%)</i>	(62.6)	24.2	22.0	25.0		Debt raised/(repaid)	8,981	(1,41,130)	(50,000)	(67,000)	
Minority interest	2,905	-	-	-		Dividend (incl. tax)	-	-	-	-	
Net profit	(1,092)	55,269	1,00,256	87,186		Chg in minorities	(1,848)	(1,013)	-	-	
Adjusted net profit	2	66,678	1,00,256	87,186		Other financing activities	-	-	-	-	
<i>Growth (%)</i>	(100.1)	nm	50.4	(13.0)		Cash flow from financing (c)	7,185	(1,42,143)	(50,000)	(67,000)	
<i>Shares o/s (mn)</i>	1,020	1,020	1,020	1,020		Net chg in cash (a+b+c)	4,846	52,460	(53,692)	1,048	

Balance Sheet					(Rs mn)
Year-end: March	FY20	FY21	FY22E	FY23E	
Net fixed assets	7,25,071	5,60,612	5,74,506	5,77,883	
Investments	1,806	11,555	11,555	11,555	
Other non-curr assets	11,009	13,159	13,159	13,159	
Current assets	1,59,533	1,93,078	1,43,805	1,49,713	
Inventories	63,687	59,426	59,426	59,426	
Sundry Debtors	35,493	27,944	27,944	27,944	
Cash and Bank	9,062	61,522	7,831	8,878	
Loans and advances	-	-	-	-	
Total assets	8,97,420	7,78,404	7,43,025	7,52,311	
Shareholders' funds	3,21,371	3,18,147	4,18,403	5,05,589	
Share capital	1,020	1,020	1,020	1,020	
Reserves & surplus	3,20,351	3,17,127	4,17,383	5,04,569	
Total Debt	3,56,642	2,15,512	1,65,512	98,512	
Secured loans	2,78,965	2,02,304	1,52,304	85,304	
Unsecured loans	77,677	13,208	13,208	13,208	
Other liabilities	56,232	62,395	62,395	62,395	
Curr Liab & prov	1,70,939	1,91,127	1,05,492	94,591	
Current liabilities	1,66,997	1,87,073	1,01,437	90,536	
Provisions	3,942	4,055	4,055	4,055	
Total liabilities	5,83,813	4,69,035	3,33,399	2,55,498	
Total equity & liabilities	8,97,420	7,78,404	7,43,025	7,52,311	
Book Value (Rs)	315	312	410	496	

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	0.0	65.4	98.3	85.5
Adj. EPS growth (%)	nm	nm	50.4	(13.0)
EBITDA margin (%)	21.3	37.0	34.2	34.9
Pre-tax margin (%)	(0.7)	18.7	24.6	24.8
ROE (%)	0.0	20.9	27.2	18.9
ROCE (%)	5.5	16.7	23.2	19.5
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.4	0.5	0.7	0.6
Leverage factor (x)	2.8	2.6	2.1	1.6
Net margin (%)	0.0	17.1	19.2	18.6
Net Debt/Equity (x)	1.1	0.5	0.4	0.2
Working Capital & Liquidity ratio				
Inventory days	63	56	42	46
Receivable days	35	26	20	22
Payable days	87	72	52	52

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	-	nm	4.1	4.7
Price / Book value (x)	1.3	1.3	1.0	0.8
PCE (x)	10.6	4.0	3.0	3.3
EV / Net sales (x)	2.0	1.4	1.1	1.1
EV / EBITDA (x)	9.6	3.9	3.2	3.1
Dividend Yield (%)	0.0	0.0	0.0	0.0



Notes

Dealing

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