

Jindal Steel & Power

Estimate change	
TP change	
Rating change	

Bloomberg	JSP IN
Equity Shares (m)	1011
M.Cap.(INRb)/(USDb)	571.5 / 7
52-Week Range (INR)	622 / 304
1, 6, 12 Rel. Per (%)	-3/10/6
12M Avg Val (INR M)	1937
Free float (%)	38.8

Financials & Valuations (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	527	533	670
EBITDA	99	126	139
APAT	37	64	71
Adj. EPS (INR)	36	63	70
EPS Gr. (%)	-58	74	11
BV/Sh. (INR)	385	445	512
Ratios			
Net D:E	0.2	0.1	0.0
RoE (%)	9.9	15.2	14.7
RoCE (%)	12.6	16.8	16.2
Payout (%)	5.5	4.7	4.3
Valuations			
P/E (x)	15.4	8.9	7.9
P/BV (x)	1.5	1.3	1.1
EV/EBITDA(x)	6.3	4.9	4.1
Div. Yield (%)	0.4	0.5	0.5
FCF Yield (%)	1.5	5.7	9.3

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	61.2	61.2	60.5
DII	13.9	14.2	17.3
FII	14.9	14.6	9.7
Others	10.0	10.0	12.5

FII Includes depository receipts

CMP: INR 560

TP: INR 650 (+16%)

Buy

Earnings hit by inventory write-down and impairment in subsidiary

- JSP reported revenue of INR137b, down 5% YoY and 7% below our estimate of INR148b. ASP improved 3% QoQ to INR67,448/t. Sales volumes stood at 2.03mt, down 2% YoY and up 7% QoQ. Exports improved to 11% of total sales (5% in 3QFY23).
- EBITDA stood at INR22b, down 29% YoY and 22% below our estimate of INR28b. EBITDA was affected by an inventory write-down of INR2.5b and high iron ore costs. EBITDA/t stood at INR10,775 v/s estimate of INR12,597.
- APAT fell 68% YoY to INR6b (our estimate INR14b) as depreciation expenses rose due to an impairment charge of INR2.5b in its Australian subsidiary.
- Net debt stood at INR67b (down ~INR20b in FY23) and the net debt-to-EBITDA ratio stood at a comfortable level of 0.7x. JSP further reduced the debt in Apr'23 and gross debt as of Apr'23 stood at ~INR90b.
- JSP has declared a final dividend of INR2 per share for FY23.
- FY23 revenue/EBITDA/APAT stood at INR527b/INR99b/INR37b (YoY: +3%/-36%/-58%). FY23 sales stood at 7.7mt (up 1% YoY).
- The 6mt pellet plant and 3mt HSM Phase I are expected to be operational in next one-two quarters, which will drive better product mix and cost savings.

Inventory write-down and impairment impact earnings

- During the quarter, JSP took an inventory write-down of INR2.5b. This was across commodities and included some input materials that turned obsolete and could not be used for steel making.
- JSP also took an impairment charge of INR2.5b in its Australia subsidiary. It is more of a one-time charge and unlikely to continue in coming quarters.

Net debt remains under control

- Net debt declined to INR67b, despite the ongoing capex program and the softness in steel prices during the year.
- JSP has reduced its net debt considerably by ~82% in the last five years and the company continues to chart the same course. The net debt-to-EBITDA ratio is currently at 0.7x and JSP aims to keep it under 1.5x.

Highlights from the management commentary

- While there is no guidance for FY24 volumes, the company is seeing strong demand in the domestic market. JSP expects volumes to pick up in FY24 amid increased government spending before elections next year.
- The cost of coking coal has eased and its impact was seen in 4QFY23.
- The 6mt pellet plant and 3mt HSM Phase I are expected to be operational in next one-two quarters, which will drive better product mix and cost savings.
- Once the HSM and other facilities are up on stream, JSP will be operating at optimum capacity (installed liquid steel capacity 9.6mt).

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Valuation and view

- 4Q performance has been weaker than expected due to inventory write-downs and impairments, which may not continue in the near to medium term. The input cost (i.e., coking coal) has cooled off substantially in Apr-May'23, which should benefit JSP from 2Q onward. Due to these factors, we have marginally reduced our EBITDA estimate by 3% for FY24.
- Once the pellet plant, HSM facility and Utkal C coal block are fully operational, they could give strong benefits, which would materially flow from FY24 onward.
- We maintain our **BUY** rating on JSP with a revised TP of INR650, based on 5.5x FY24E EV/EBITDA. We believe JSP's focused approach on leverage, along with capacity expansion, should augur well. The stock is currently trading at 4.9x FY24E EV/EBTIDA.

Consolidated quarterly performance (INR b)

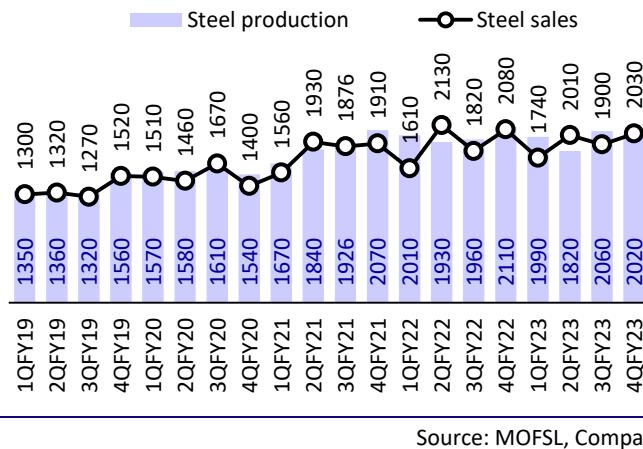
Y/E March	FY22				FY23				FY22	FY23	FY23 v/s Est	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Sales vol (mt)	1.6	2.1	1.8	2.1	1.7	2.0	1.9	2.0	7.6	7.7	2.2	-8.9
Net sales	106	136	125	143	130	135	125	137	511	527	147.7	-7.3
Change (YoY, %)	42	52	19	21	23	-1	-1	-5	31	3	3.0	
Change (QoQ %)	-11	28	-8	14	-9	4	-8	10			18.6	
EBITDA	45	46	33	31	34	19	24	22	155	99	28	-22.1
Change (YoY, %)	118	63	-28	-42	-24	-59	-27	-29	5	-36	-8.6	
Change (QoQ %)	-14	1	-28	-7	12	-43	23	-8			18.0	
EBITDA/t (Consol)	28,192	21,569	18,188	14,761	17,200	7,559	12,513	10,775	20,306	11,819	12,597	
Interest	6	5	5	4	4	4	3	4	19	14	3.0	
Depreciation	6	6	6	3	6	6	6	9	21	27	6.1	
Other income	0	0	0	0	0	0	0	0	1	1	0.2	
PBT (before EO item)	34	35	22	24	25	10	14	10	116	59	19	
Extra-ordinary income	0	0	2	3	1	-9	-4	-2	5	-14	0.0	
PBT (after EO item)	34	35	25	27	26	1	11	8	121	45	19	
Total tax	9	9	6	5	6	-2	5	3	29	13	5.5	
Reported PAT	25	26	19	22	20	2	5	5	92	32	14	
MI - Loss/(Profit)	0	0	0	0	0	0	0	0	0	0	0.0	
Adjusted PAT	25	26	16	19	15	7	9	6	87	37	14	-54.6
Change (YoY, %)	1975	213	-32	-34	-42	-73	-45	-68	39	-58	-30.3	
Change (QoQ %)	-13	2	-37	20	-25	-53	31	-31			51.4	

Standalone quarterly performance (INR b)

Y/E March	FY22				FY23				FY22	FY23	FY23 4QE	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net sales	104	133	120	138	128	131	118	134	494	512	142	-5.6
NSR (INR/t)	64,501	62,259	65,686	66,494	73,842	65,209	62,275	65,972	64,701	66,641	63,663	
Change (YoY, %)	69	69	37	33	24	-1	-1	-3	49	4	3	
Change (QoQ %)	0	28	-10	16	-7	2	-10	13			20	
EBITDA	45	45	32	31	33	18	22	21	153	95	26	-16.9
Change (YoY, %)	165	86	-19	-37	-27	-59	-29	-30	18	-38	-16	
Change (QoQ %)	-7	0	-30	-4	8	-44	22	-5			15	
EBITDA/t	28,098	21,216	17,404	14,695	19,028	9,143	11,813	10,543	19,983	12,413	11,562	
Interest	4	4	3	3	3	3	3	4	14	13	3	
Depreciation	6	6	6	6	5	5	5	5	22	22	5	
Other income	0	0	0	0	0	0	0	0	1	0	0	
PBT (before EO item)	36	36	23	22	25	10	14	12	117	61	17	
Extra-ordinary income	0	0	0	-3	58	-17	-73	-1	-3	-33	0	
PBT (after EO item)	36	36	23	19	83	-7	-59	11	114	29	17	
Total tax	8.9	9.1	5.9	4.9	17.2	-2.1	-13.7	3.1	28.8	4.5	4.4	
Tax (%)	25	25	26	25	21	31	23	28	25	16	25	
Reported PAT	27	27	17	14	66	-5	-45	8	85	24	13	
Adjusted PAT	27	27	17	18	8	12	27	9	88	57	13	-28.4
Change (YoY %)	544	173	-29	-37	-69	-56	60	-47	34	-36	-25	
Change (QoQ %)	-4	2	-37	2	-53	46	130	-66			-52	

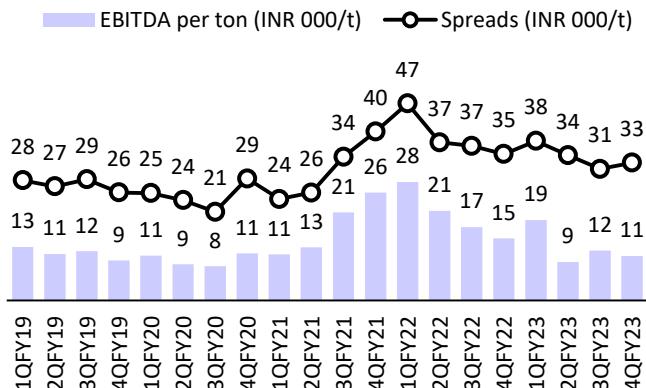
Story in charts

Exhibit 1: Steel production and sales (in kt); sales up 7% QoQ



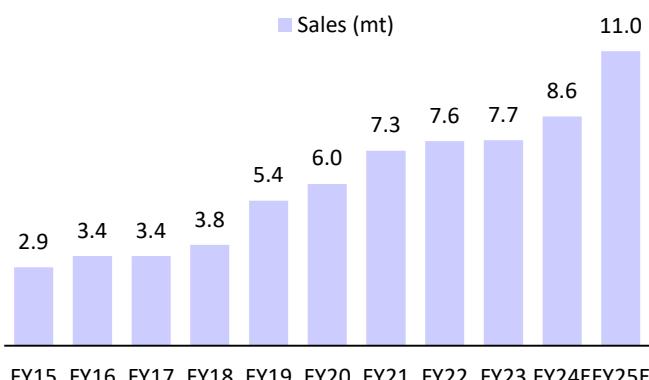
Source: MOFSL, Company

Exhibit 2: Though standalone spreads improved QoQ, EBITDA/t was down during the quarter



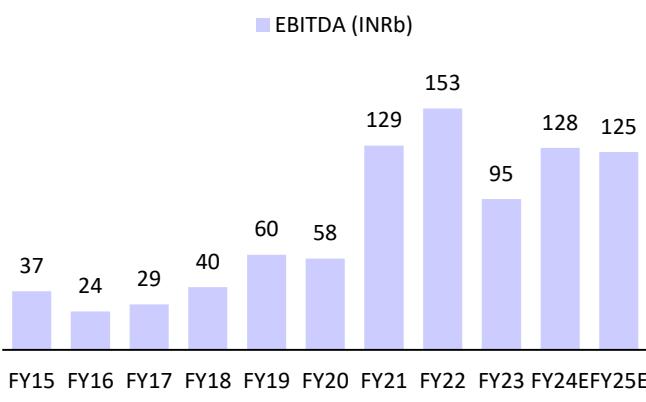
Source: MOFSL, Company

Exhibit 3: Annual steel sales (mt), consistent growth visible; JSP on track to achieving ~11mt sales in FY25E



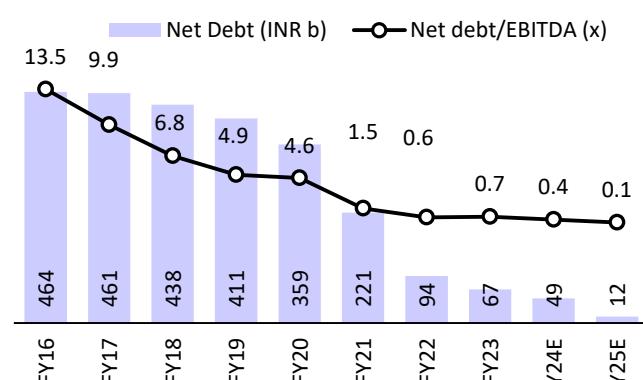
Source: MOFSL, Company

Exhibit 4: Standalone EBITDA (INR b) to improve in FY24E after touching a low in FY23E



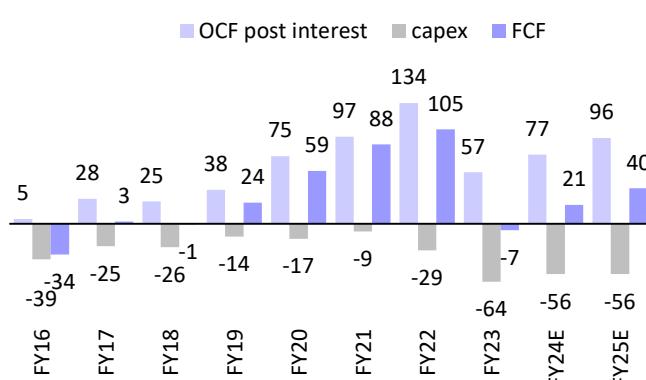
Source: MOFSL, Company

Exhibit 5: Falling net debt and net debt/EBITDA ratios



Source: MOFSL, Company

Exhibit 6: OCF, capex, and FCF



Source: MOFSL, Company



Key highlights from the management commentary

Costs and ASP

- The iron ore cost during the quarter was high, which was marginally offset by the lower coking coal cost.
- The steel price was better in 4QFY23, which increased the ASP by 3%, but it was offset by higher SMS costs, which hurt JSP's performance.

Impairment in Australian subsidiary

- JSP during the quarter had taken an impairment charge of INR2.5b in its Australian subsidiary and an inventory write-down of INR2.5b in India.
- This impacted EBITDA and APAT of the company.
- EBITDA, after adjusting inventory write-down, would have been ~INR24.5-25b.
- APAT, after adjusting write-down and impairment, would have been ~INR9.5-10b.
- JSP will keep a close watch on its inventories and fixed assets and if in future the book value of the investment is lower than the market value, JSP will undertake an impairment or write-off at an appropriate time.

Domestic demand

- Demand remains buoyant in the domestic market, especially from the infrastructure, power and construction sectors, where JSPL has a strong presence.
- JSP expects higher infrastructure spending by the government before elections next year.
- Currently, customers who had pushed buying steel in the last couple of months are sitting on low inventory and JSP expects the demand to pick up from these customers.

Coal mines

- The Utkal C coal block is under the final stages of clearance. It is expected to be operational at PRC of 3.5mt p.a. and will cater to thermal coal requirement of the Angul plant.
- Similarly, the Gare Palma coal block, once operational, will also have PRC of ~3.5-4mt.
- This will further drive down the cost going forward.

Net debt and cash

- JSP has reduced its net debt considerably by ~82% in the last five years and the company continues to chart the same course.
- The net debt-to-EBITDA ratio is currently at 0.7x and JSP aims to keep it under 1.5x.

Capex and timelines

- All the expansions are on track and the 6mt pellet plant and the 3mt HSM Phase I are expected to be operational in the next one-two quarters, which will drive better product mix and cost savings.

- Until the BoF comes on stream, JSP will manufacture downstream products from the HSM.
- JSP will first commence production at its pellet plant, thereafter start coal excavation from the mines followed by HSM and slab caster and finally by the end of FY24 it will commence production from BoF at Angul. The company will follow the above sequence, which ensues higher productivity and cost savings.
- Currently JSP has earmarked INR56b in FY24 for capex; however, details would be known in few weeks.

Exhibit 7: Valuation and target price

Y/E March	UoM	FY24E
Volume	mt	8.6
Blended EBITDA/t	INR	14,690
Consol EBITDA	INR b	126
Target EV/EBITDA(x)	x	5.5
Target EV	INR b	698
Net Debt (incl JPL reduction)	INR b	49
Equity Value	INR b	649
No of shares o/s	b	1.0
Target price (INR/share)	INR/sh	650

Source: MOFSL

Exhibit 8: EV/EBITDA ratio for JSP...

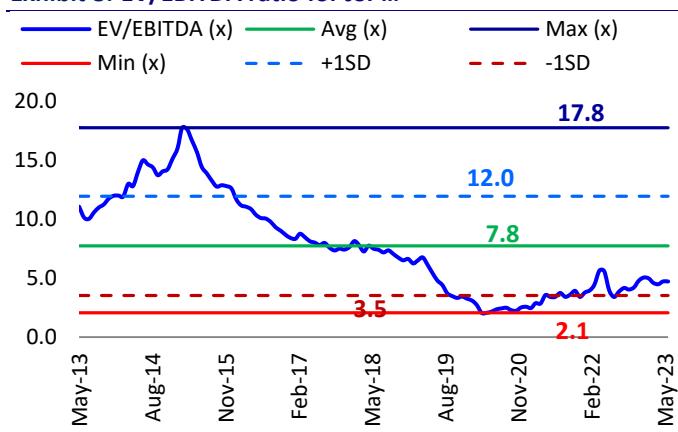


Exhibit 9: ...whereas P/B ratio is over +1SD

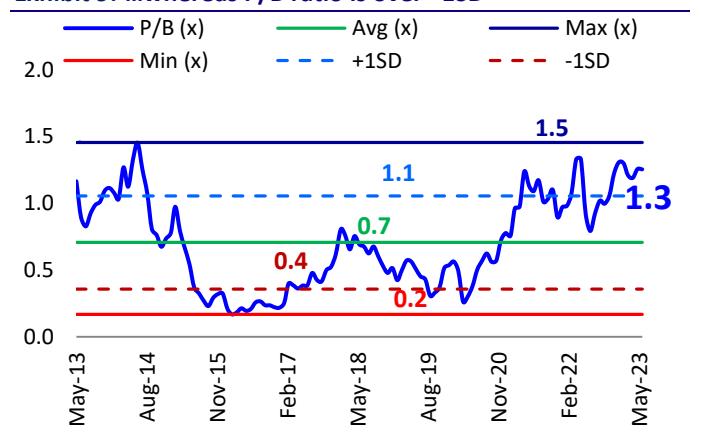


Exhibit 10: Global steel valuation comparable

Company	M-Cap USD m	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
		CY21/ FY22	CY22/ FY23	CY23/ FY24									
India													
Tata*	15,950	3.3	15.2	9.7	2.9	6.2	5.6	1.2	1.3	1.2	44.6	8.3	13.4
JSW*	20,641	7.9	61.3	10.1	5.7	12.8	6.5	2.5	2.6	2.1	37.5	4.2	23.3
JSP*	6,946	6.5	15.4	8.9	4.3	6.3	4.9	1.6	1.5	1.3	25.9	9.9	15.2
SAIL*	4,218	2.9	17.7	8.3	2.4	6.9	5.0	0.6	0.6	0.6	24.3	3.6	7.4
Japan													
JFE	8,126	3.9	6.9	6.9	5.0	6.4	6.5	0.6	0.5	0.5	15.5	7.4	7.1
Nippon Steel	19,973	5.1	4.1	6.5	5.4	4.8	5.5	0.8	0.7	0.6	18.1	17.3	10.1
Kobe Steel	3,295	8.0	7.2	7.3	6.2	6.7	5.8	0.6	0.5	0.5	7.2	7.5	6.9
Korea													
POSCO	23,359	7.2	9.6	7.9	4.5	5.2	4.5	0.6	0.5	0.5	8.3	5.9	6.8
Hyundai Steel	3,452	3.3	5.3	4.4	3.9	4.5	3.9	0.2	0.2	0.2	7.6	4.6	5.3
US													
Nucor	34,774	4.8	8.6	11.9	3.3	5.1	6.7	1.9	1.7	1.5	43.5	20.5	12.0
US Steel	4,783	2.2	5.1	12.8	1.4	2.9	4.0	0.5	0.5	0.4	26.2	9.1	4.6
Steel Dynamics	16,372	4.4	6.2	10.9	3.1	4.2	6.5	2.1	1.7	1.4	51.9	29.0	14.0
Europe													
AM	22,317	2.5	5.6	5.3	2.0	3.5	3.4	0.4	0.4	0.4	18.8	7.7	7.4
SSAB	6,712	3.2	6.1	10.0	1.8	3.0	4.4	0.7	1.0	1.0	26.0	16.7	9.9
TKA	4,318	4.2	14.6	7.2	0.4	0.4	0.3	0.3	0.3	0.3	8.4	2.1	4.2
VOE	5,882	5.1	5.3	8.5	3.6	3.0	3.8	0.8	0.7	0.7	16.7	13.8	8.0
China													
Baosteel	20,039	9.2	8.7	7.6	5.3	4.7	4.0	0.7	0.7	0.7	7.0	7.1	7.9

Source: MOFSL, Company, Bloomberg(*) denotes MOFSL estimates

Exhibit 11: Key assumptions and changes to our estimates

UoM	FY23E			FY24E			FY25E			
	New	Old	% change	New	Old	% change	New	Old	% change	
Standalone										
Volumes	mt	7.7	7.9	-2.5%	8.6	8.7	-1.2%	11.0	11.0	0.0%
Realisation/t	INR	66,641	65,971	1.0%	60,441	60,495	-0.1%	59,562	59,562	0.0%
EBITDA/t	INR	12,413	12,654	-1.9%	14,916	14,223	4.9%	11,382	10,851	4.9%
EBITDA	INR b	95	100	-4.4%	128	123	3.6%	125	119	4.9%
Consolidated										
Revenue	INR b	527	538	-2.0%	533	542	-1.7%	670	673	-0.4%
EBITDA	"	99	106	-5.9%	126	127	-1.0%	139	136	2.4%
PAT	"	37	44	-16.8%	64	66	-3.1%	71	69	3.4%

Source: Company, MOFSL

Financials and valuation

Consolidated Income Statement									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	210	276	394	370	389	511	527	533	670
Change (%)	14	31	43	-6	5	31	3	1	26
Total Expenses	164	212	310	291	241	356	428	407	531
EBITDA	47	65	84	79	148	155	99	126	139
Depn. and Amortization	39	39	42	42	35	21	27	26	32
EBIT	7	26	42	37	113	134	72	100	107
Net Interest	34	39	43	41	31	19	14	11	13
Other income	0	0	0	0	4	1	1	1	1
PBT before EO	-27	-13	0	-4	86	116	59	90	95
EO income	-4	-6	-28	2	-13	5	-14	0	0
PBT after EO	-30	-19	-28	-2	73	121	45	90	95
Tax	-5	-2	-4	2	18	29	13	26	24
Reported PAT	-25	-16	-24	-4	55	92	32	64	71
Minority interests	-3	-2	-8	0	3	0	0	0	0
Preference dividend	0	0	0	0	0	0	0	0	0
Share of Associates	0	0	0	0	0	0	0	0	0
Adjusted PAT	-19	-8	3	-5	63	87	37	64	71
Change (%)	NA	NA	-139	PL	LP	39	-58	74	11

Consolidated Balance Sheet									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	1	1	1	1	1	1	1	1	1
Reserves	300	303	323	320	317	355	386	446	514
Net Worth	301	304	324	321	318	356	387	447	515
Minority Interest	6	4	-3	-8	-9	15	3	3	3
Total Loans	467	443	415	368	293	139	124	119	119
Deferred Tax Liability	54	50	54	56	62	73	59	59	59
Capital Employed	827	802	790	738	665	582	574	629	696
Gross Block	783	847	900	951	833	765	742	802	862
Less: Accum. Deprn.	129	168	210	252	286	307	334	360	392
Net Fixed Assets	654	679	690	699	547	458	408	442	470
Capital WIP	97	50	40	20	9	17	71	67	63
Goodwill and Revaluation	6	6	6	6	5	4	1	1	1
Investments	4	1	1	1	1	1	1	1	1
Curr. Assets	146	157	158	171	216	285	213	239	294
Inventory	36	50	65	64	59	73	59	73	92
Account Receivables	17	18	30	35	28	13	10	10	12
Cash and Bank Balance	5	5	4	10	72	45	57	70	107
Loans and advances and others	88	84	58	62	57	155	87	85	83
Curr. Liability and Prov.	79	91	106	159	113	184	120	121	133
Account Payables	22	28	32	56	41	53	47	48	60
Provisions and Others	57	62	74	104	73	132	73	73	73
Net Current Assets	67	66	52	12	103	101	93	118	161
Appl. of Funds	827	802	790	738	665	582	574	629	696

Financials and valuation

Consolidated ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	-20.9	-8.5	3.3	-5.3	61.4	86.0	36.4	63.2	70.5
Cash EPS	15.4	23.3	18.4	36.9	88.0	111.5	58.6	88.9	102.5
BV/Share	328.4	313.9	335.0	315.1	311.9	352.5	385.1	444.9	512.0
DPS	0.0	0.0	0.0	0.0	0.0	3.0	2.0	3.0	3.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	3.5	5.5	4.7	4.3
Valuation (x)									
P/E	-26.8	-66.0	170.8	-105.8	9.1	6.5	15.4	8.9	7.9
Cash P/E	36.4	24.0	30.4	15.2	6.4	5.0	9.6	6.3	5.5
P/BV	1.7	1.8	1.7	1.8	1.8	1.6	1.5	1.3	1.1
EV/Sales	4.6	3.5	2.4	2.5	2.0	1.3	1.2	1.1	0.9
EV/EBITDA	20.9	15.2	11.3	11.8	5.4	4.3	6.3	4.9	4.1
Return Ratios (%)									
EBITDA Margin (%)	22.2	23.4	21.3	21.2	38.0	30.4	18.8	23.6	20.8
Net Profit Margin (%)	-9.1	-3.0	0.8	-1.5	16.1	17.0	6.9	11.9	10.6
RoE	-7.9	-2.6	1.0	-1.6	19.6	25.9	9.9	15.2	14.7
RoCE (pre-tax)	1.0	3.2	5.3	4.9	16.7	21.6	12.6	16.8	16.2
RoIC (pre-tax)	1.1	3.6	5.7	5.1	17.7	24.6	15.1	21.5	21.1
Working Capital Ratios									
Fixed Asset Turnover (x)	0.3	0.4	0.5	0.5	0.7	1.1	1.1	1.0	1.3
Asset Turnover (x)	0.3	0.3	0.5	0.5	0.6	0.9	0.9	0.4	0.4
Inventory (Days)	63	66	60	63	56	52	41	50	50
Debtor (Days)	30	24	28	35	26	9	7	7	7
Payable (Days)	39	38	30	55	38	38	33	33	33
Work. Cap. Turnover (Days)	29	22	12	1	8	11	7	20	20
Leverage Ratio (x)									
Current Ratio	1.8	1.7	1.5	1.1	1.9	1.5	1.8	2.0	2.2
Interest Coverage Ratio	0.2	0.7	1.0	0.9	3.7	7.1	5.0	9.2	8.4
Debt/Equity ratio	1.5	1.4	1.3	1.1	0.7	0.3	0.2	0.1	0.0

Consolidated Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EBITDA	47	65	84	79	148	155	99	126	139
Non-cash exp. / (income)	-1	3	1	2	-2	25	-5	0	0
(Inc.) / Dec. in Wkg. Cap.	7	-9	-24	19	-12	-8	11	-12	-7
Tax Paid	0	-1	0	0	1	-20	-27	-26	-24
others	16	14	22	16	-14	9	-6	0	0
CF from Op. Activity	69	72	84	115	120	160	73	88	108
(Inc.) / Dec. in FA + CWIP	-25	-26	-14	-17	-9	-29	-64	-56	-56
(Pur.) / Sale of Investments	5	12	2	0	0	1	0	0	0
Loans and advances	-1	-2	3	0	-11	4	23	0	0
Int. and Dividend Income	1	2	1	1	1	2	1	1	1
Other investing activities	2	-1	-1	0	8	-13	5	0	0
CF from Inv. Activity	-18	-15	-9	-16	-11	-36	-35	-55	-55
Equity raised / (repaid)	0	14	0	5	0	-5	-2	0	0
Debt raised / (repaid)	-10	-24	-30	-61	-23	-119	-6	-5	0
Dividend (incl. tax)	0	0	0	0	0	-1	-2	-4	-4
Interest paid	-41	-47	-46	-40	-23	-26	-15	-11	-13
CF from Fin. Activity	-52	-57	-75	-94	-46	-151	-25	-19	-16
(Inc.) / Dec. in Cash	-1	0	-1	5	62	-27	13	13	37
Add: Opening Balance	6	5	5	4	10	72	45	57	70
Closing Balance	5	5	4	10	72	45	57	70	107

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NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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