

Jindal Steel & Power

Performance Update

INR Cr.	Q2FY19	Q2FY18	% chg. (yoy)	Q1FY19	% chg. (qoq)
Total Income	9983	6123	63	9602	4
Operating profit	2207	1373	60.72	2277	-3
OPM (%)	22.1	22.3	-21.6(bps)	23.7	-160(bps)
PAT	279	-499	NA	111	152

Source: Company, Angel Research

For Q2FY2019, JSPL has delivered in-line performance on revenue front and registered a growth of 63% to Rs9,983cr on yoy basis and 4% growth on qoq basis. However, despite this growth, JSPL was not able to show improvement on bottom-line front due to lower realization in Product mix and higher Iron ore, Coal and import cost, which led to de-growth in EBIDTA/tonne during the quarter from Rs13,800/tonne in Q1FY2019 to Rs11,500/tonne in Q2FY2019. Management expects raw material prices to soften in coming quarters. On volume front, sales has improved to 1.75 MT, up by 38% on you basis and 9% on qoq basis. Angul ramp up is increasing and it is improved by 10% from previous quarter.

JPL: Power segment has reported de-growth by 6% on EBIDTA front on qoq basis and 12% on yoy basis to ₹302cr as against ₹314cr and ₹345cr in Q2FY2018 respectively. Margin has been down by 614bps on yoy basis owing to increase in raw material prices as compared to last year. However, it has improved by 71bps on qoq basis to 33.2%. Due to seasonality issue, there was shortage of coal during the quarter, we expect that post monsoon the coal situation should improve and upcoming election followed by summer will keep power demand at higher levels.

Outlook & Valuation: We have positive view on steel and power sectors on long term basis and expect JSPL to perform well in coming years owing to ramp up of Angul plant and realization in steel segment. We also expect power segment to perform well on account of improving power demand situation and various effort by GoI for availability of fuel to power generator. We maintain our Buy recommendation with target Price of Rs320 with a potential upside of 82%.

Key Financials

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E
Net Sales	20,409	27,383	38,967	45,973
% chg	14	34	42	18
EBIDTA	4,337	5,882	8,763	11,095
% chg	35	36	49	27
EBITDA (%)	21%	21%	22%	24%
EPS (Rs)	(26)	(17)	9	26
P/E (x)	-	-	21	7
P/BV (x)	0.6	0.6	0.6	0.5
RoE (%)	-	-	2.7	7.5
RoCE (%)	0.6	2.9	6.6	10.1
EV/EBITDA	13.1	9.6	6.3	4.5

Source: Company, Angel Research

Valuation done based on 14th November 2018 closing price

BUY

CMP ₹175
Target Price ₹320

Investment Period 12 Months

Market Cap (₹ cr)	16,939
Net Debt (₹ cr)	42,605
Beta	2.6
52 Week High / Low	294/157
Avg. Daily Volume	872,696
Face Value (₹)	1
BSE Sensex	35,142
Nifty	10,577
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	(6.6)	6.7	37.2
JSPL	(12.5)	2.8	121.0

3years performance chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2019 Performance

In Cr	Q2FY19	Q2FY18	Q1FY19	YOY %	QOQ%
Net Sales	9983	6151	9602	62.3%	5%
Total Income	9982	6123	9665	63%	5%
Total Expenditure	7775	4750	7389	64%	5%
Raw Material Consumed	3999	2235	3739	79%	3%
Stock Adjustment	78	-47	-109	-265%	-20%
Purchase of Finished Goods	280	61	141	361%	NA
COGS	4357	2248	3771	94%	3%
Employee Expenses	269	245	245	10%	-1%
Other Expenses	3222	2373	3435	36%	19%
Captive sales	-74	-116	-63		
Raw Material Consumed	40%	36%	39%		
Stock Adjustment	1%	-1%	-1%		
Purchase of Finished Goods	3%	1%	1%		
COGS	44%	37%	39%		
<i>Gross Margin %</i>	<i>44%</i>	<i>37%</i>	<i>39%</i>		
Employee Expenses	3%	4%	3%		
Other Expenses	32%	39%	36%		
EBITDA	2207	1373	2277	51%	5%
Other Income	0.91	1.4	0.0	-34%	-5%
Interest	1086	927	973	17%	11%
PBDT	1122	448	1304	151%	5%
Depreciation	1031	998	1039	3%	0%
PBT	91	-550	265	-117%	7%
Exceptional Item (gain/loss)	-255	149	0	-271%	
Tax	67.21	-200	154	-134%	-18%
PAT	279	-499	111	-156%	24%
Ratios				BPS	BPS
EBITDA margin (%)	22.11	22.33	23.71	-22	-160
PAT margin %	0.03	-0.08	1.15	11	-113
Tax rate %	73.80	36.41	58.13	3739	1567

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)			70,840
<i>Add</i>			
CWIP (B)			3,783
Cash(C)			946
Subtotal (D) = (A)+(B)+(C)			75,569
<i>Less</i>			
Debt FY19 (Sept)			42,605
Equity Value (F) = (D)-(E)			32,964
No of share (G)^			102
Value per share INR (F)/(G)			324
CMP			175
Upside			85%

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 21% discount to JSW Energy's of EV ₹4.9cr/MW.

Valuing the steel segment by applying multiple of ₹5,400cr/MTPA at 26% discount to JSW Steel's EV/Tonne of ₹6,849cr/MTPA.

^ Factoring issuance of warrant shares.

Exhibit 3: Peer Asset Valuation

Particular	JSW steel	Tata Steel	JSW Energy	Tata power	NTPC
EV/Tonne	6,849	6,362			
EV/MW			4.9	6.1	4.7
Crude steel Capacity (MTPA)	18	28			
Power Generation Capacity (MW)			4,451	10,757	52,946

Source: Company, Angel Research

Consolidated Financial Statement

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E
Total operating income	21,051	27,383	38,967	45,973
% chg	15	30	42	18
Total Expenditure	16,714	21,502	30,203	34,878
Raw Material	6,535	9,378	12,896	15,215
Personnel	914	956	1,361	1,605
Purchase of finished goods	265	324	385	455
Others Expenses	8,999	10,843	15,561	17,603
EBIDTA	4,337	5,882	8,763	11,095
% chg	35	36	49	27
(% of Net Sales)	20.6	21.5	22.5	24.1
Depreciation & Amortisation	3,949	3,883	4,114	4,234
EBIT	388	1,999	4,650	6,862
% chg	(145)	415	133	48
(% of Net Sales)	2	7	12	15
Interest & other Charges	3,441	3,866	3,557	3,557
Other Income	10	3	3	3
Extraordinary Items	(372)	(577)	-	-
Recurring PBT	-2,671	-1,287	1,096	3,308
% chg	(28)	(52)	(185)	202
Tax	-503	-240	252	761
PAT (reported)	-2,168	-1,047	844	2,547
% chg	(24)	(52)	(181)	202
(% of Net Sales)	-10.3	-3.8	2.2	5.5
Basic & Fully Diluted EPS (Rs)	-26	-17	9	26
% chg	(18)	(36)	(152)	202

Source: Company, Angel Research

Consolidated Balance Sheet

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS				
Equity Share Capital	92	97	97	97
Reserves & Surplus	29,959	30,283	31,127	33,674
Shareholders Funds	30,051	30,380	31,224	33,771
Equity Share warrant		5	5	5
Minority Interest	647	440	338	235
Total Loans	39,958	39,198	38,824	34,362
Other Liabilities	6,430	6,074	8,662	8,865
Total Liabilities	77086	76097	79053	77238
APPLICATION OF FUNDS				
Net Block	66,934	69,550	67,732	65,997
Capital Work-in-Progress	8,714	3,877	1,947	1,850
Investments	368	146	146	146
Long Term Loans & Advances			-	-
Current Assets	13,022	14,313	20,517	23,892
Inventories	3,599	4,960	6,864	7,475
Sundry Debtors	1,717	1,826	2,600	3,068
Cash & Cash Equivalent	477	468	992	2,224
Loans & Advances	6,841	6,589	9,633	10,676
Investments & Others	387	471	429	450
Current liabilities	13,489	13,133	18,759	21,422
Net Current Assets	-467	1,180	1,758	2,469
Other Non Current Asset	1,537	1,343	7,470	6,775
Total Assets	77086	76097	79053	77238

Source: Company, Angel Research

Cash flow

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E
Profit before tax	(2,671)	(1,287)	1,096	3,308
Depreciation	3,949	3,883	4,114	4,234
Change in Working Capital				
Interest / Dividend (Net)	3,441	3,866	3,557	3,557
Direct taxes paid	(503)	(240)	252	761
Others	2,582	(516)	(1,163)	14
Cash Flow from Operations	6,799	5,706	7,855	11,873
(Inc.)/ Dec. in Fixed Assets	(2,354)	(2,000)	(2,499)	(2,498)
(Inc.)/ Dec. in Investments	356	175	(46)	(45)
Cash Flow from Investing	(1,998)	(1,825)	(2,545)	(2,543)
Issue of Equity	0	1,200	-	-
Inc./(Dec.) in loans	-2875.18	-760.44	-374.00	-4462.00
Others	(2,181)	(4,305)	(4,207)	(3,637)
Cash Flow from Financing	(5,057)	(3,866)	(4,581)	(8,099)
Inc./(Dec.) in Cash	(256)	15	730	1,232
Opening Cash balances	503	247	262	992
Closing Cash balances	247	263	992	2,224

Source: Company, Angel Research

Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
P/E (on FDEPS)	-	-	20.9	6.9
P/CEPS	9.9	6.2	3.6	2.6
P/BV	0.6	0.6	0.6	0.5
EV/Sales	2.8	2.1	1.4	1.1
EV/EBITDA	13.1	9.6	6.3	4.5
EV / Total Assets	0.7	0.7	0.7	0.6
Per Share Data (Rs)				
EPS (Basic)	-26.2	-16.8	8.7	26.3
EPS (fully diluted)	-25.0	-16.0	8.3	25.1
Cash EPS	18.4	29.3	51.2	70.1
DPS	0.0	0.0	0.0	0.0
Book Value	310	314	323	349
Returns (%)				
ROCE	0.6	2.9	6.6	10.1
Angel ROIC (Pre-tax)	0.6	2.8	6.1	9.4
ROE	-8.5	-5.3	2.7	7.5
Turnover ratios (x)				
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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