

## Jindal Steel & Power

### Performance Update

INR Cr.	Q3FY19	Q3FY18	% chg. (yoy)	Q2FY19	% chg. (qoq)
<b>Total Income</b>	9580	6993	37	9983	-4
Operating profit	2077	1607	29.30	2207	-6
OPM (%)	21.7	23.3	-158.8	22.1	-43
<b>PAT</b>	-86	-123	NA	42	-307

Source: Company, Angel Research

**Steel:** For Q3FY2019, on standalone basis, JSPL has delivered strong performance and registered a revenue growth of 58% yoy to ~`6,754cr. The company's EBIDTA also improved by 61% yoy to `1,480cr owing to better realizations. Further, EBIDTA/tonne also improved from `11,344cr in 2QFY2019 to `12,333cr in 3QFY2019. On consolidated basis, revenue grew by 37% yoy to `9,580cr as against `6,993cr in 3QFY2018. In 3QFY2019, Jindal Shadeed recorded a production of 0.46mn tonnes of crude steel, up by 10% yoy. EBITDA for Jindal Shadeed stood at \$32mn for the quarter, down 49% yoy owing to weak global steel prices.

Going forward, we expect EBIDTA/tonne to sustain in the same range owing to stable global steel prices and increasing domestic consumption of steel. However, recent inch-up in iron ore prices may impact operating margins, but at same time, it will also support steel prices. As far as JSPL is concerned, increasing input prices can be offset against improving utilization at Angul plant.

**JPL:** During Q3FY2019, revenue in power segment witnessed de-growth of 14% yoy to `1,004cr vs. `1,172cr in the corresponding quarter previous year. Poor coal availability continued to impact the generation volumes. Generation volumes for the quarter stood at 2,609mn units, down 12% yoy, while EBITDA margin contracted by 318bps yoy to 27% due to higher coal costs and lower generation volumes.

**Outlook & Valuation:** Given the ongoing global trade concerns, we expect steel prices to remain range bound. 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 power demand situation and various efforts by Gol for availability of fuel to power generators. We maintain our Buy recommendation on JSPL with revised target price of ₹249 with a potential upside of 84%.

### Key Financials

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E
<b>Net Sales</b>	<b>20,409</b>	<b>27,383</b>	<b>38,967</b>	<b>41,512</b>
% chg	14	34	42	7
<b>EBIDTA</b>	<b>4,337</b>	<b>5,882</b>	<b>8,763</b>	<b>10,175</b>
% chg	35	36	49	16
EBITDA (%)	21%	21%	22%	24%
<b>EPS (Rs)</b>	<b>(26)</b>	<b>(17)</b>	<b>9</b>	<b>19</b>
P/E (x)	-	-	15	7
P/BV (x)	0.4	0.4	0.4	0.4
RoE (%)	-	-	2.7	5.6
RoCE (%)	0.6	2.9	6.6	8.8
EV/EBITDA	11.9	8.7	5.7	4.5

Source: Company, Angel Research

Valuation done based on 6<sup>th</sup> February, 2019 closing price

Please refer to important disclosures at the end of this report

## BUY

CMP ₹135  
 Target Price ₹249

Investment Period 12 Months

### Stock Info

Sector	Steel & Power
Market Cap (₹ cr)	12,560
Net Debt (₹ cr)	39,197
Beta	2.6
52 Week High / Low	279/125
Avg. weekly Volume	1,331,278
Face Value (₹)	1
BSE Sensex	36,975
Nifty	11,062
Reuters Code	JNSP.BO
Bloomberg Code	JNSP IN

### Shareholding Pattern (%)

Promoters	58.7
MF / Banks / Indian FIs	6.9
FII / NRIs / OCBs	19.2
Indian Public / Others	15.2

Abs.(%)	3m	1yr	3yr
Sensex	5.6	5.4	27.0
JSPL	(26.9)	(46.0)	(12.8)

### 3years performance chart



Source: Company, Angel Research

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## Exhibit 1: 3QFY2019 Performance

In Cr	Q3FY19	Q3FY18	Q2FY19	YOY %	QOQ%
<b>Net Sales</b>	<b>9580</b>	<b>6904</b>	<b>9983</b>	38.8%	-4%
Total Income	9566	6993	9982	37%	-4%
<b>Total Expenditure</b>	<b>7488</b>	<b>5386</b>	<b>7775</b>	39%	-4%
Raw Material Consumed	3856	2217	3999	74%	-4%
Stock Adjustment	-371	85	78	-538%	-573%
Purchase of Finished Goods	277	54	280	408%	-1%
<b>COGS</b>	<b>3761</b>	<b>2356</b>	<b>4357</b>	60%	-14%
Employee Expenses	279	241	269	16%	4%
Other Expenses	3527	2789	3222	26%	9%
Capitav sales	-79	0	-63		
Raw Material Consumed	40%	32%	40%		
Stock Adjustment	-4%	1%	1%		
Purchase of Finished Goods	3%	1%	3%		
COGS	39%	34%	44%		
Gross Margin %	39%	34%	44%		
Employee Expenses	3%	3%	3%		
Other Expenses	37%	40%	32%		
<b>EBITDA</b>	<b>2077</b>	<b>1607</b>	<b>2207</b>	29%	5%
Other Income	14.77	1.0	0.0	1320%	#DIV/0!
Interest	1042	967	973	8%	7%
PBDT	1050	641	1234	64%	-15%
Depreciation	1036	963	1039	8%	0%
<b>PBT</b>	<b>14</b>	<b>-323</b>	<b>195</b>	-104%	-93%
<b>Exceptional Item (gain/loss)</b>	<b>0</b>	<b>0</b>	<b>0</b>	NA	
Tax	100	-200	154	-150%	-18%
PAT	-86	-123	42	-30%	24%
<b>Ratios</b>				<b>BPS</b>	<b>BPS</b>
EBITDA margin (%)	21.7	23.3	22.11	-159	-43
PAT margin %	0	0	0.42	1	-43
Tax rate %	NA	62	78.71	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 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 ₹ 249.

#### 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	4,800	50,880
Consol Enterprise Value (A)			<b>64,480</b>
Debt FY19 (Sept) (B)			42,605
<b>Equity Value ( C)= (A)-(B)</b>			<b>25,283</b>
No of share (D) ^			102
<b>Value per share INR (C)/(D)</b>			<b>249</b>
<b>CMP</b>			<b>130</b>
<b>Upside</b>			<b>91%</b>

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 ₹4800cr/MTPA at 22% discount to JSW Steel's EV/Tonne of ₹ 5,962cr/MTPA.

^ Factoring issuance of warrant shares.

#### Exhibit 3: Peer Asset Valuation

Particular	JSW steel	Tata Steel	JSW Energy	Tata power	NTPC
EV/Tonne	5,962	5,898			
EV/MW			4.7	5.9	4.6
Crude steel Capacity (MTPA)	18	28			
Power Generation Capacity (MW)			4,451	10,757	52,946

Source: Company, Angel Research

**Exhibit 4: Income statement**

Y/E March (` cr)	FY17	FY18	FY19E	FY20E
<b>Total operating income</b>	<b>21,051</b>	<b>27,383</b>	<b>38,967</b>	<b>41,512</b>
% chg	15	30	42	7
<b>Total Expenditure</b>	<b>16,714</b>	<b>21,502</b>	<b>30,203</b>	<b>31,901</b>
Raw Material	6,535	9,378	12,896	13,739
Personnel	914	956	1,361	1,450
Purchase of finished goods	265	324	385	416
Others Expenses	8,999	10,843	15,561	16,090
<b>EBIDTA</b>	<b>4,337</b>	<b>5,882</b>	<b>8,763</b>	<b>10,175</b>
% chg	35	36	49	16
(% of Net Sales)	20.6	21.5	22.5	24.2
Depreciation & Amortisation	3,949	3,883	4,114	4,234
<b>EBIT</b>	<b>388</b>	<b>1,999</b>	<b>4,650</b>	<b>5,941</b>
% chg	(145)	415	133	28
(% of Net Sales)	2	7	12	14
Interest & other Charges	3,441	3,866	3,557	3,220
Other Income	10	3	3	3
Extraordinary Items	(372)	(577)	-	-
<b>Recurring PBT</b>	<b>-2,671</b>	<b>-1,287</b>	<b>1,096</b>	<b>2,388</b>
% chg	(28)	(52)	(185)	118
Tax	-503	-240	252	549
<b>PAT (reported)</b>	<b>-2,168</b>	<b>-1,047</b>	<b>844</b>	<b>1,839</b>
% chg	(24)	(52)	(181)	118
(% of Net Sales)	-10.3	-3.8	2.2	4.4
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	<b>-26</b>	<b>-17</b>	<b>9</b>	<b>19</b>
% chg	(18)	(36)	(152)	118

Source: Company, Angel Research

## Exhibit 5: Balance sheet

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	92	97	97	97
Reserves & Surplus	29,959	30,283	31,127	32,966
<b>Shareholders Funds</b>	<b>30,051</b>	<b>30,380</b>	<b>31,224</b>	<b>33,063</b>
<b>Equity Share warrant</b>		5	5	5
<b>Minority Interest</b>	647	440	338	235
Total Loans	39,958	39,198	38,824	34,362
Other Liabilities	6,430	6,074	8,662	8,490
<b>Total Liabilities</b>	<b>77086</b>	<b>76097</b>	<b>79053</b>	<b>76202</b>
<b>APPLICATION OF FUNDS</b>				
<b>Net Block</b>	<b>66,934</b>	<b>69,550</b>	<b>67,732</b>	<b>65,997</b>
Capital Work-in-Progress	8,714	3,877	1,947	1,850
Investments	368	146	146	146
Long Term Loans & Advances			-	-
<b>Current Assets</b>	<b>13,022</b>	<b>14,313</b>	<b>20,517</b>	<b>21,045</b>
Inventories	3,599	4,960	6,864	6,536
Sundry Debtors	1,717	1,826	2,600	2,770
Cash & Cash Equivalent	477	468	992	1,389
Loans & Advances	6,841	6,589	9,633	9,640
Investments & Others	387	471	429	450
<b>Current liabilities</b>	<b>13,489</b>	<b>13,133</b>	<b>18,759</b>	<b>19,349</b>
<b>Net Current Assets</b>	<b>-467</b>	<b>1,180</b>	<b>1,758</b>	<b>1,434</b>
Other Non Current Asset	1,537	1,343	7,470	6,775
<b>Total Assets</b>	<b>77086</b>	<b>76097</b>	<b>79053</b>	<b>76202</b>

Source: Company, Angel Research

**Exhibit 6: Cash Flow**

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E
Profit before tax	(2,671)	(1,287)	1,096	2,388
Depreciation	3,949	3,883	4,114	4,234
Change in Working Capital				
Interest / Dividend (Net)	3,441	3,866	3,557	3,220
Direct taxes paid	(503)	(240)	252	549
Others	2,582	(516)	(1,163)	312
<b>Cash Flow from Operations</b>	<b>6,799</b>	<b>5,706</b>	<b>7,855</b>	<b>11,039</b>
(Inc.)/ Dec. in Fixed Assets	(2,354)	(2,000)	(2,499)	(2,498)
(Inc.)/ Dec. in Investments	356	175	(46)	(45)
<b>Cash Flow from Investing</b>	<b>(1,998)</b>	<b>(1,825)</b>	<b>(2,545)</b>	<b>(2,543)</b>
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)	(3,300)
<b>Cash Flow from Financing</b>	<b>(5,057)</b>	<b>(3,866)</b>	<b>(4,581)</b>	<b>(7,762)</b>
Inc./ (Dec.) in Cash	(256)	15	730	397
<b>Opening Cash balances</b>	<b>503</b>	<b>247</b>	<b>262</b>	<b>992</b>
<b>Closing Cash balances</b>	<b>247</b>	<b>263</b>	<b>992</b>	<b>1,389</b>

Source: Company, Angel Research

**Exhibit 7: Key Ratio**

<b>Y/E March</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019E</b>	<b>FY2020E</b>
P/E (on FDEPS)	-	-	14.9	6.8
P/CEPS	7.1	4.4	2.5	2.1
P/BV	0.4	0.4	0.4	0.4
EV/Sales	2.5	1.9	1.3	1.1
EV/EBITDA	11.9	8.7	5.7	4.5
EV / Total Assets	0.7	0.7	0.6	0.6
<b>Per Share Data (Rs)</b>				
EPS (Basic)	-26.2	-16.8	8.7	19.0
EPS (fully diluted)	-25.0	-16.0	8.3	18.1
Cash EPS	18.4	29.3	51.2	62.7
DPS	0.0	0.0	0.0	0.0
Book Value	310	314	323	342
<b>Returns (%)</b>				
ROCE	0.6	2.9	6.6	8.8
Angel ROIC (Pre-tax)	0.6	2.8	6.1	8.2
ROE	-8.5	-5.3	2.7	5.6
<b>Turnover ratios (x)</b>				
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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<b>Disclosure of Interest Statement</b>	<b>Jindal steel &amp; Power</b>
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No