




Jindal Steel & Power Limited

Industry METALS
Bloomberg JSP IN
BSE CODE 532286

Lower volume QoQ, but steel realization higher due to better product mix....

RATING	BUY
CMP	131
Price Target	190
Potential Upside	45%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	279/125
Mkt Capital (Rs Cr)	12584
Free float (%)	38%
Avg. Vol 1M (,000)	10995
No. of Shares (Cr.)	97
Promoters Pledged %	50%

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3QFY19 Result Update

- ❑ JSPL's (consol) sales came in at Rs.9566cr (up 36.8% YoY, down 4% QoQ), QoQ fall was on account of lower volume in steel business both in India as well as in Oman.
- ❑ Consolidates EBITDA came in at Rs.2077cr (up 29% YoY, down 6% QoQ), EBITDA margin for the quarter was at 21.7% (vs.23% in 3QFY18, 22% in 2QFY19).
- ❑ Consolidated production and sales volume for the quarter came in at 1.68mt (up 21% YoY, 1% QoQ) and 1.65mt (up 21% YoY, down 6%QoQ).
- ❑ Indian steel business realization improved QoQ despite fall in steel prices due to better product mix.
- ❑ Oman business sales volume came in at 0.45mt (up 7% YoY, down 4% QoQ).EBITDA came in at USD 47mn (down 25% YoY, up 2% QoQ), Oman business volume and margin remain impacted by continuous fall in Middle East rebar prices.
- ❑ Power generation at JPL was 2609mn unit (down 12.5% YoY, up 7.5% QoQ), revenue was at Rs.1004cr (down 14%, up 10% QoQ) and EBITDA came in Rs.273cr (down 23% YoY, and 10% QoQ). EBITDA/unit was at Rs.1.05/unit (down 12% YoY and 16% QoQ).
- ❑ Other comprehensive income of Rs.4447cr in 3QFY19 is related to revaluation of Oman business. In books it was valued at USD 0.8mn and since the capacity has increased in last few years at Oman and the current market value of the same is close to USD 2.4bn, thus its carrying cost has gone up.
- ❑ Indian business Jan'19 exit rate for Jan'19 was 6mtpa; management expects 1.5mt volume in 4QFY19 and close to 6.5mt in FY20 for Indian business. Oman FY20 volume is expected to be close to 2.3-2.4mt.

View and Valuation

Despite fall in steel prices, JSPL's standalone steel realization improved QoQ on the back of better product mix. However, volume fell due to lower inventory buildup at customer end in Dec'19 because of significant fall in steel prices in Dec'19. Oman business volume and margin continue to remain impacted by falling rebar prices in Middle East. Higher coal cost and coal availability issues continue to impact JPL's performance. At Jan'19 exit run rate of 1.5mt in Indian business, the volume at standalone level will at least be close to 6mt. Oman volume is also expected to increase with the help of increased capacity (increased to 2.4mt from 2mt) and increased supply of gas there will also be of help. JPL's performance is impacted by coal scarcity in domestic market; however, management expects 4QFY18 and 1HFY20 to generate better result due to recent win of a short term PPA of 200MW from Telangana and improved availability of coal compared to 2Q and 3QFY19 (which is a seasonal trend). Our Revenue/EBITDA estimate stands reduce by 5%/4% for FY19 and by 1%/2% for FY20 due to lower steel volume assumption. We expect Revenue/EBITDA CAGR of 21%/13% over FY18-20e. We are positive on JSPL's long term perspective driven by huge scope for volume growth, debt reduction by Rs.12000cr combined in FY19 and FY20 (out of which Rs.3235cr has been paid in 9MFY19), furthermore Oman business IPO to raise capital which will be used for deleveraging and restructuring of Australian debt is also a positive. We value the stock at **Rs.190 (5x FY20e EV/EBTIDA) and recommend BUY on the stock.**

Key Risks to our rating and target

- ❑ Increase in iron ore and coking coal prices would impact gross margins.
- ❑ Cautious about exceptional items (no provision for couple of contingent liabilities).

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	18371	21051	27383	39276	40176
EBITDA	3437	4658	6469	8726	9383
EBIT	-631	709	2586	4474	4867
PAT	-2850	-2168	-1037	-56	665
EPS (Rs)	-34	-28	-17	2	7
ROE (%)	-10%	-8%	-5%	1%	2%
ROCE (%)	-1%	1%	4%	7%	8%
BV	355	328	314	316	323
P/B (X)	0.17	0.37	0.70	0.41	0.41
P/E (x)	-	-	-	64	19

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3QFY19 Results Higher input cost impact mitigated by better product mix and higher efficiency.... Consolidated

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	6,993	8,599	9,665	9,982	9,566	36.8%	-4.2%	21,051	27,383	30.1%
Other Income	1	1	-	1	15	1320%	1523%	10	3	-71%
Total Income	6,994	8,599	9,665	9,983	9,580	37.0%	-4.0%	21,061	27,386	30.0%
COGS	2,356	3,021	3,771	4,357	3,761	59.6%	-13.7%	7,083	9,461	33.6%
Staff cost	241	238	245	269	280	15.8%	4.1%	914	956	4.6%
Other Exp.	2,901	3,297	3,435	3,222	3,527	21.6%	9.4%	9,000	11,087	23.2%
Expenditure	5,386	6,462	7,389	7,775	7,489	39.0%	-3.7%	16,392	20,914	27.6%
EBITDA	1,607	2,137	2,277	2,207	2,077	29%	-5.9%	4,658	6,469	38.9%
Depreciation	963	960	1,040	1,031	1,036	7.5%	0.4%	3,949	3,883	-1.7%
EBIT	643	1,177	1,237	1,176	1,041	61.9%	-11.5%	709	2,586	264.7%
Interest	967	1,071	972	1,086	1,042	7.8%	-4.0%	3,390	3,866	14.0%
PBT	(323)	106	264	91	14	-	-85.1%	(2,671)	(1,277)	-
Except. Item	-	438	-	(255)	-	-	-	372	587	57.8%
Tax	(46)	94	154	67	100	-	48.7%	(503)	(240)	-
PAT	(273)	(425)	110	279	(87)	-	-	(2,538)	(1,616)	-

Operating Matrix

JSPL	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %
Prod.(mt)	0.84	0.91	0.90	0.89	0.97	1.26	1.23	1.30	1.22	25.8%
Sales (mt)	0.84	0.92	0.81	0.83	0.94	1.18	1.19	1.28	1.20	27.7%
EBITDA/t(Rs.)	9332	9929	9253	9442	9799	12871	13824	11344	12334	25.9%
Oman	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %
Prod.(mt)	0.31	0.39	0.36	0.43	0.42	0.46	0.43	0.38	0.46	9.5%
Sales (mt)	0.32	0.39	0.34	0.43	0.42	0.48	0.42	0.47	0.45	7.1%
EBITDA/t(USD)	66	82	94	128	150	148	162	98	104	-30.4%
JPL	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %
Power (unit)*	2356	2336	3186	2427	2982	2310	2751	2427	2609	-12.5%
EBITDA/t (Rs.)	1.28	1.64	1.47	1.42	1.19	1.15	1.14	1.24	1.05	-12.4%

*mn unit

Steel volume lower QoQ, however realization up despite fall in steel prices

Standalone steel production and sales volume came in at 1.22mt (up 25.8% YoY, down 6.2% QoQ) and 1.20mt (up 27.7% YoY, down 6.3% QoQ). Volume increased on YoY basis led by ramp up of Angul plant, however, volume declined QoQ basis primarily due to significant fall in steel prices in Dec'19 leading to decline in inventory buildup at customer end and furthermore, during the latter half of 2QFY19 increase in steel prices led to more than expected inventory buildup at customer end. On realization front, despite fall in steel prices in 3QFY19 company has been able to clock higher realization due to better product mix and this coupled with better efficiency due to ramp up Angul helped in mitigating the increased input cost effect and helped in YoY as well as QoQ improvement in EBITDA/t.

Oman volume and margins continue to remain impacted by lower steel prices

Oman steel production and sales volume for the quarter came in at 0.46mt (up 9.5% YoY, up 21% QoQ) and 0.45mt (up 7.1% YoY, down 4% QoQ). Continues fall in Middle East steel rebar prices have led to significant contraction in margins as well as lower volumes in Oman business. Though, EBITDA/t improved QoQ to USD104/t (vs.USD98/t in 2QFY19) but on YoY basis it has significantly contracted from USD 150/t in 3QFY18. Furthermore, Oman does not enjoy the same kind of flexibility as company does in Indian business to change the product mix to maintain or get higher realization. IPO plans for Oman business is at advance stage and its delivery time is in March'19, management expects to raise close to USD 300mn which will be partly used for deleveraging and in addition it will be used to restructure Australian debt.

Coal availability still a challenge for power business

Coal availability continues to be a challenge for power business both in terms of cost and in terms of availability. Power generation for the quarter was at 2609mn unit (down 12.5% YoY, up 7% QoQ). Power sales on YoY basis were lower due to lower exchange sales. Coal cost for the quarter increased to Rs.2.47/unit (vs. Rs.2.18/unit in 2QFY19 and Rs.2.15/unit in 3QFY18). Company recently got a short term PPA from Telangana of 200MW from 15thJan'19 to 13th Apr'19. Management stated that 4QFY19 and 1HFY20 would generate much better result for power business.

Conference call highlights

Steel business update:

- Demand: management do not see any structural change in demand and don not expect demand to go down. However, steel prices may decline but that is also very unlikely as Chinese steel prices have bottomed out.
- Improvement in realization was due to improvement in services provided by the company and better product mix. Increased operational efficiency at Angul plant has helped in mitigating the increase in raw material prices and cut down on cost.
- Jan'19 exit run rate of 6mt in Indian business.
- Oman business EBTIDA remained impacted by falling rebar prices in Middle East.
- Management assumes that steel prices have bottomed out, last quarter Chinese player were operating at USD100/t and now after the recent price cuts they have bottomed out on price cut front.
- Management expect realization to fall in 4QFY19 vs. 3QFY19 as lower steel prices effect would come in the 4QFY19, however, on cost front prices of iron ore have also fallen significantly which will help in maintaining the EBITDA margins in the range of 3QFY19 or may be little lower.
- Angul per ton cost is now close to Raigarh plant per ton cost led by continuous increase in volume, management further expect Rs.2000/t reduction in cost going ahead led by further increase in volume and higher efficiency of Angul plant.
- Coal gasification and DRI plant are expected to get commission in Feb'19 and would gradually increase volume.

JPL (Power business) updates:

- PLF grew by 9% QoQ to 35%, and realization improved to Rs.3.83/unit (vs.Rs.3.81/unit in 2QFY19). Coal cost increased to Rs.2.47/unit (vs.Rs.2.18/unit in 2QFY19 and Rs.2.15/unit in 3QFY18).
- Power unit sales on YoY basis was impacted by lower exchange sales.
- Company got a short term PPA of 200MW from 15th Jan'19 to 13th Apr'19 from Telangana.
- Management expects 4QFY19 and 1HFY20 would generate much better result for power business.
- Management said recent SECL auction has helped to secure 7.5MT of coal.
- Management is seeing pick up in long term and medium term PPA's, with projects like PFC planning of generating close to 10000MW from stressed assets.

Financial updates:

- Management highlighted realization on blended basis increased by Rs.1700/t, cost of iron ore increased by Rs.800/t, and coking coal prices increased by Rs.500/t. And gain out of improved efficiency was close to Rs.500/t. EBITDA/t increased by Rs.1000/t.
- Jan-Feb'19 realization are down by close to Rs.3000-5000/t (vs. Dec'18), and realization on quarterly basis are down by Rs.3700/t in 4QFY19 till now vs.3QFY19.
- Cost/t is also down by Rs.3000/t in Jan-Feb'19 and by Rs.3500/t on quarterly basis in 4QFY19 till now.
- Capex – 9MFY19 capex stood at Rs.850cr on consolidated basis and is in line with yearly guidance of close to Rs.1500cr capex in FY19. 3QFY19 capex stood at Rs.100-150cr.
- Debt- Net debt at the end of 3QFY19 (excluding forex fluctuation) stood at Rs.39197cr vs. Rs.40236cr at the end of 2QFY19. And including the forex impact the net debt at the end of 3QFY19 stood at Rs.40102cr vs. Rs.41711cr in 2QFY19.
- Oman business IPO update- Management highlighted that the IPO of Oman business is at very advance stage as it has been in discussion for last 15 months and its delivery period in Mar'19. Management expects to raise close to USD 300mn out of it. Part of it is would be used for deleveraging and in addition to that it will be used to restructure Australian debt.
- Other comprehensive income of Rs.4447cr is related to revaluation of Oman business.

Guidance:

- Steel – Steel India volume in 4QFY19 is expected to be close to 1.5mt and FY20 is expected to be around 6.5mt. Oman volume is expected to be close to 2.3-2.4mt in FY20.
- Debt- management has maintained its guidance of Rs.12000cr debt reduction in FY19 and FY20 combined Rs.5000cr in FY19 and Rs.7000cr in FY20 by operational methods and non-operational methods. Management highlighted that Rs.3235cr have been deleverage in 9MFY19 and management expects Rs.4000 plus operational deleveraging in FY19 and some part of cash from Oman business IPO which is expected to happen soon and also be used to repay some debt in FY19 and reach closer to Rs.5000cr level.

Exhibit: Standalone Steel Volumes

fall in steel prices led to low inventory buildup at consumer end during the last month(Dec'19) leading to lower sales

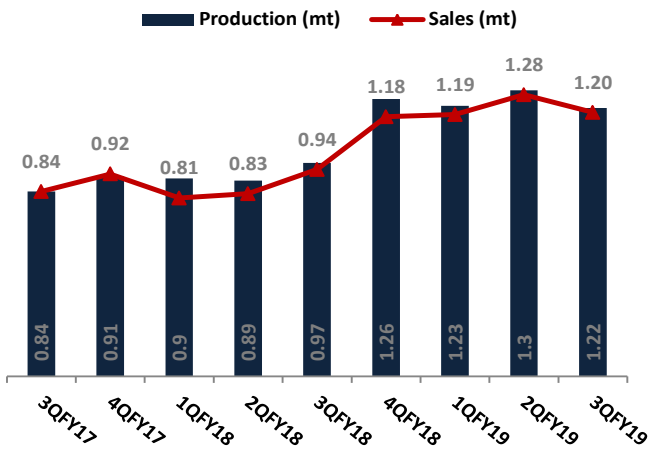


Exhibit: Standalone EBITDA and EBITDA/t Trend

higher realization due to better product mix led to QoQ improvement in EBITDA/t....

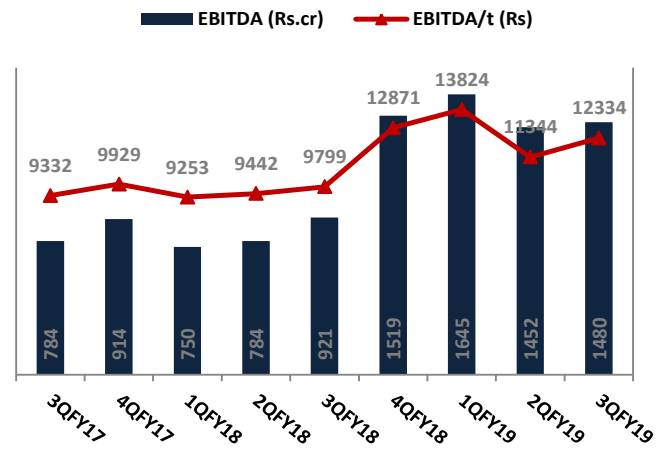


Exhibit: Jindal Shaded Volume Trend

falling steel prices in international market have impacted the sales volume in Oman business....

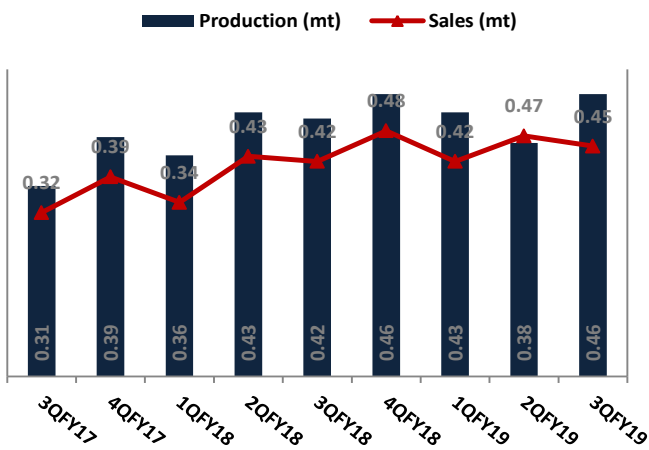


Exhibit: Jindal Shaded EBITDA and EBITDA/t Trend

EBITDA/t though improved QoQ, however it still remain impacted by lower steel prices....

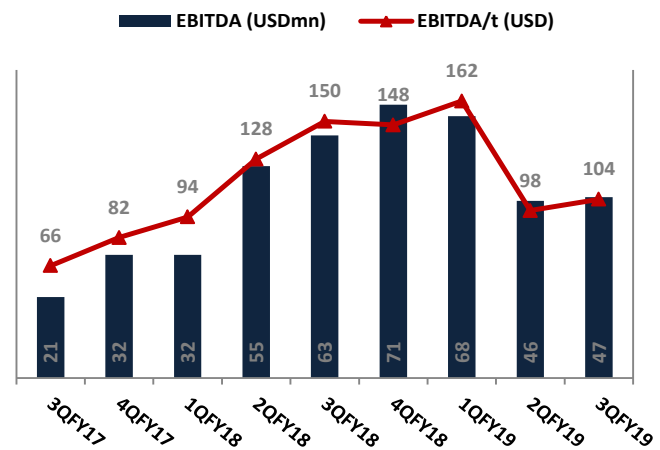


Exhibit: JPL Power Generation Trend

power generation improved QoQ, however coal availability continue to impact the power business....

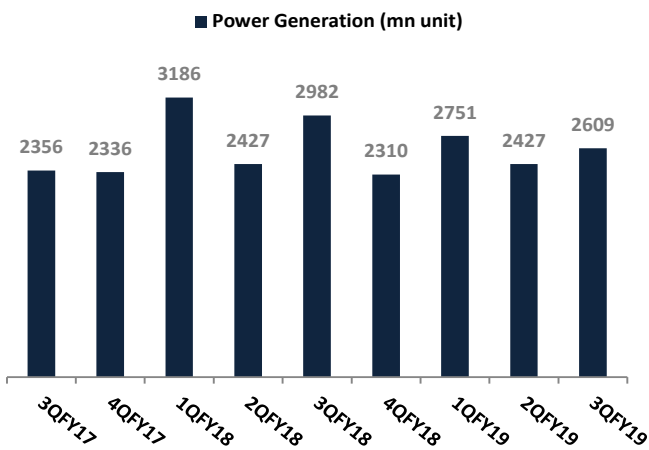


Exhibit: JPL EBITDA and EBITDA/unit Trend

higher coal cost QoQ led to fall in EBITDA/unit....

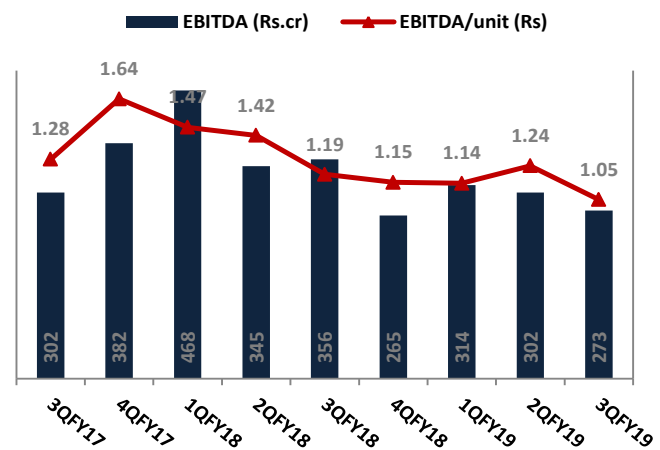


Exhibit: Pellet Sales Trend

external pellet sales continue to decline due to increase in captive consumption led higher steel volume....

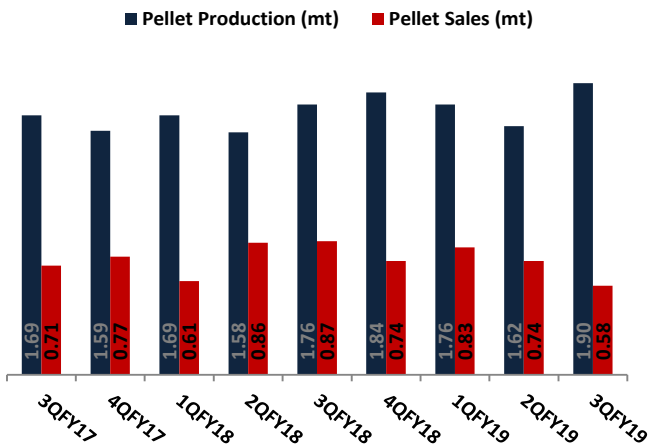


Exhibit: Consolidated Net Sales and Growth trend

YoY growth slowed down and was down QoQ in absolute terms primarily on account of lower volume in 3QFY19....

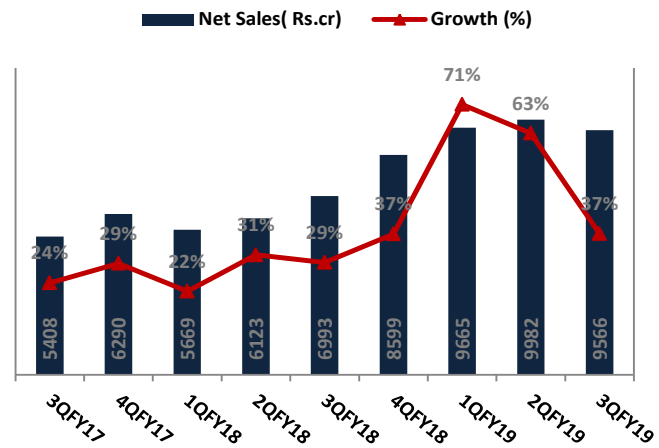


Exhibit: Consolidated COGS and Gross Margin Trend

effect of increase in raw material prices was offset by better efficiency and better product mix....

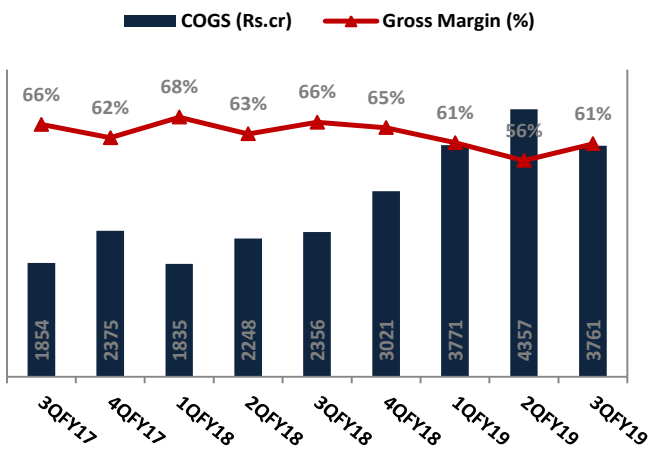


Exhibit: Consolidated EBITDA and Margin Trend

EBITDA margin for the quarter were broadly flat QoQ even after fall in steel prices and higher input cost....

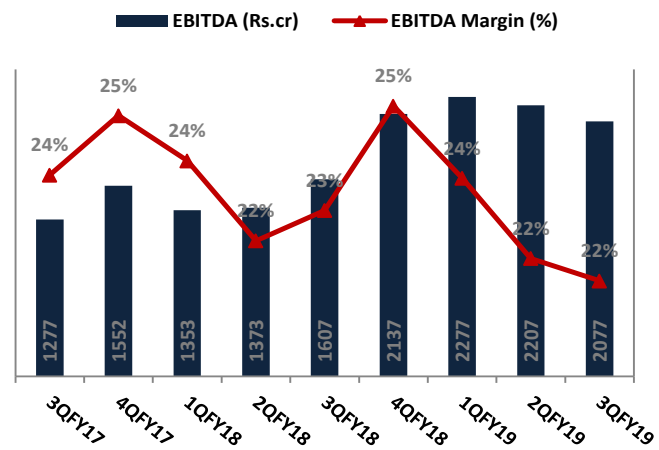


Exhibit: Trend of Steel Rebar Prices

as Chinese steel prices are assumed to have bottomed out, domestic prices are also expected to have bottomed out....

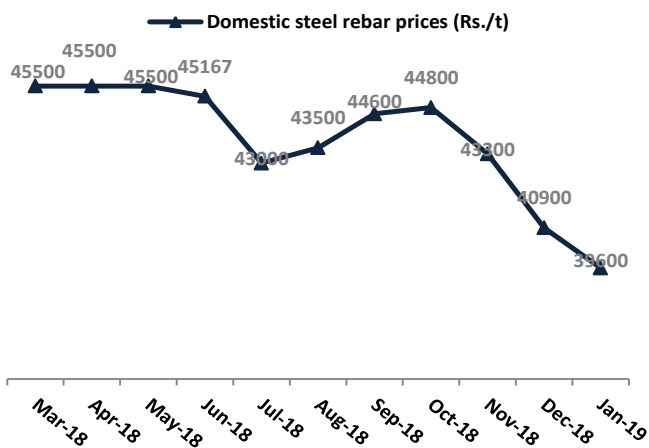
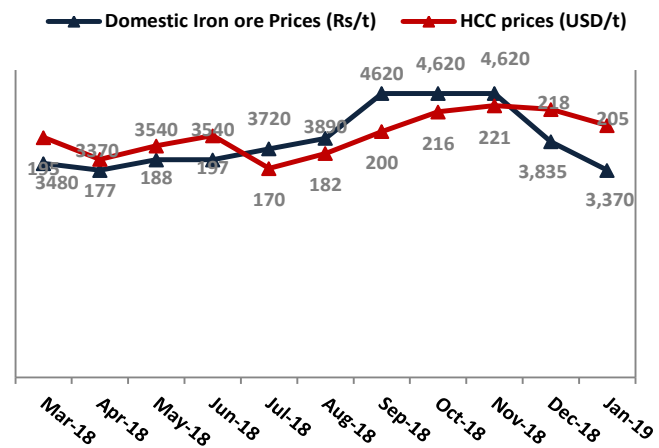


Exhibit: Iron Ore Price and Coking Coal Prices

iron ore prices have also fallen with fall in steel prices, and HCC prices have also seen correction recently....



Financial Details (Consolidated)

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	93	91	91	91	92	97	97	97
Reserves	21,159	22,519	20,951	32,345	29,959	30,283	30,482	31,148
Networth	21,252	22,611	21,042	32,436	30,051	30,380	30,579	31,245
Debt	23,649	34,230	42,252	44,132	39,958	39,199	39,199	36,243
Other Non Cur Liab	1,898	2,160	2,447	5,966	6,123	5,796	5,794	5,794
Total Capital Employed	44,901	56,840	63,294	76,568	70,009	69,579	69,778	67,488
Net Fixed Assets (incl CWIP)	38,505	52,207	55,168	76,317	75,049	72,830	69,778	66,261
Non Cur Investments	809	342	353	359	368	146	146	146
Other Non Cur Asst	2,578	3,514	3,684	2,923	2,210	1,942	2,146	1,942
Non Curr Assets	41,891	56,062	59,204	79,600	77,627	74,917	72,070	68,349
Inventory	4,524	4,881	4,849	3,254	3,599	4,960	7,113	7,276
Debtors	1,954	1,772	1,691	1,429	1,717	1,826	2,619	2,679
Cash & Bank	200	1,015	1,139	687	514	468	1,620	2,580
Other Curr Assets	8,503	10,341	8,654	7,428	7,141	7,059	10,481	11,132
Curr Assets	15,181	18,010	16,332	12,799	12,971	14,313	21,833	23,668
Creditors	1,398	2,752	2,053	2,318	2,938	4,190	5,380	5,504
Provisions (both)	4,917	5,607	314	261	370	340	395	397
Other Curr Liab	3,401	5,632	6,571	6,386	10,512	8,881	12,111	12,389
Curr Liabilities	9,683	13,942	8,779	8,769	13,512	13,133	17,608	18,011
Net Curr Assets	5,498	4,068	7,553	4,030	(541)	1,180	4,226	5,656
Total Assets	57,073	74,072	75,537	92,398	90,598	89,230	93,903	92,016

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	19,807	20,004	19,401	18,371	21,051	27,383	39,276	40,176
Change (%)	9%	1%	-3%	-5%	15%	30%	43%	2%
Other Income	136	66	226	157	10	3	17	4
EBITDA	5,994	5,457	5,460	3,437	4,658	6,469	8,726	9,383
Change (%)	-12%	-9%	0%	-37%	36%	39%	35%	8%
Margin (%)	30%	27%	28%	19%	22%	24%	22%	23%
Depr & Amor.	1,539	1,829	2,733	4,068	3,949	3,883	4,252	4,516
EBIT	4,455	3,628	2,727	(631)	709	2,586	4,474	4,867
Int. & other fin. Cost	758	1,181	2,584	3,254	3,390	3,866	4,116	3,878
EBT	3,833	2,512	369	(3,728)	(2,671)	(1,277)	375	993
Exp Item	-	-	1,912	236	372	587	(255)	-
Tax	922	618	(88)	(877)	(503)	(240)	431	328
Minority Int & P/L share of Ass.	(2)	17	176	(1)	3	9	-	-
Reported PAT	2,910	1,910	(1,278)	(3,087)	(2,538)	(1,616)	199	665
Adjusted PAT	2,910	1,910	(1,278)	(3,087)	(2,538)	(1,616)	199	665
Change (%)	-27%	-34%	-167%	142%	-18%	-36%	-112%	234%
Margin(%)	15%	10%	-7%	-17%	-12%	-6%	0%	2%

Financial Details (Consolidated)

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	14%	8%	-6%	(0.10)	-8%	-5%	1%	2%
ROCE	12%	7%	5%	-1%	1%	4%	7%	8%
Asset Turnover	0.35	0.27	0.26	0.20	0.23	0.31	0.42	0.44
Debtor Days	36	32	32	28	30	24	24	24
Inv Days	83	89	91	65	62	66	66	66
Payable Days	26	50	39	46	51	56	50	50
Int Coverage	5.88	3.07	1.06	(0.19)	0.21	0.67	1.09	1.26
P/E	11.2	14.0	(11.2)	(1.8)	(4.4)	(13.1)	63.6	19.0
Price / Book Value	1.5	1.2	0.7	0.2	0.4	0.7	0.4	0.4
EV/EBITDA	8.0	9.5	8.9	12.0	9.3	8.3	5.0	4.3
FCF per Share	(52.2)	(89.3)	(44.9)	4.2	47.0	53.2	56.6	84.9
Div Yield	0%	1%	-	-	-	-	-	-

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	3,833	2,512	(1,543)	(3,964)	(3,043)	(1,864)	375	993
<i>(inc)/Dec in Working Capital</i>	(3,109)	448	(2,311)	1,366	2,291	970	(2,316)	(173)
<i>Non Cash Op Exp</i>	2,798	3,019	4,843	6,930	7,551	8,618	8,623	8,394
<i>Int Paid (+)</i>	758	1,181	2,584	3,254	3,390	3,866	4,116	3,878
<i>Tax Paid</i>	(788)	(834)	(339)	(17)	45	(55)	(431)	(328)
<i>others</i>								
CF from Op. Activities	3,522	5,979	989	4,333	6,799	7,725	6,683	9,215
<i>(inc)/Dec in FA & CWIP</i>	(8,401)	(14,153)	(5,096)	(3,950)	(2,498)	(2,577)	(1,200)	(1,000)
<i>Free Cashflow</i>	(4,879)	(8,174)	(4,107)	383	4,301	5,148	5,483	8,215
<i>(Pur)/Sale of Inv</i>	(363)	472	(1,394)	1,599	(9)	252	(215)	(421)
<i>others</i>								
CF from Inv. Activities	(9,591)	(14,093)	(6,341)	(2,262)	(1,999)	(1,431)	(1,415)	(1,420)
<i>inc/(dec) in NW</i>	-	(399)	1	-	0	1,220	-	-
<i>inc/(dec) in Debt</i>	7,527	11,584	9,070	923	(968)	(2,981)	-	(2,956)
<i>Int. Paid</i>	(1,571)	(2,178)	(3,438)	(3,594)	(4,088)	(4,684)	(4,116)	(3,878)
<i>Div Paid (inc tax)</i>	(157)	(149)	(145)	(1)	-	-	-	-
<i>others</i>								
CF from Fin. Activities	6,111	8,880	5,515	(2,672)	(5,057)	(6,276)	(4,116)	(6,834)
<i>Inc(Dec) in Cash</i>	43	766	163	(601)	(257)	18	1,152	961
<i>Add: Opening Balance</i>	132	175	940	1,103	503	246	468	1,620
Closing Balance	175	940	1,103	502	246	264	1,620	2,580

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