

December 12, 2016

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Rating	BUY
Price	Rs74
Target Price	Rs100
Implied Upside	35.1%
Sensex	26,747
Nifty	8,262

(Prices as on December 09, 2016)

Trading data

Market Cap. (Rs bn)	67.9
Shares o/s (m)	914.9
3M Avg. Daily value (Rs m)	771.8

Major shareholders

Promoters	61.89%
Foreign	18.19%
Domestic Inst.	1.81%
Public & Other	18.11%

Stock Performance

(%)	1M	6M	12M
Absolute	(0.6)	15.3	(14.5)
Relative	(0.3)	14.9	(21.3)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	-22.7	-13.0	74.6
2018	-6.4	1.3	-584.1

Price Performance (RIC: JNSP.BO, BB: JSP IN)



Source: Bloomberg

Jindal Steel and Power (JSP) reported Q2FY17 earnings below our expectation due to lower than estimated earnings in steel operations. JSP would be best placed to exploit the benefit of steep increase in steel prices as 70% of its production comes through non-coking coal route. Earnings outlook for FY18 remains strong on the back of better outlook on steel prices, commissioning of BF in Angul and signing of PPA with UPSEB. We reiterate BUY with TP of Rs100, valuing steel operations at 6x EV/EBITDA FY18E and JPL (3400MW) at Rs45m/MW.

- **Lower realisations in domestic/Shadeed ops drove the miss:** EBITDA of standalone ops fell 24% QoQ/31% YoY at Rs4.3bn, below PLe of Rs5.4bn. Loss of standalone ops expanded to Rs4.1bn (PLe:Rs2.9bn) against loss of Rs2.8bn/Rs3.1bn in Q1FY17/Q2FY16. Shadeed posted 60% QoQ/25% YoY drop in EBITDA to US\$13m (PLe:US\$29m) due to sharp drop in realisations. Jindal Power (JPL) reported flat (+8% YoY) EBITDA to Rs1.8bn (PLe:Rs1.9bn). Consolidated EBITDA fell 23% QoQ (-17% YoY) to Rs6.7bn (PLe:Rs9.2bn). Loss expanded to Rs7.5bn (PLe:Rs5.4bn) against loss of Rs4.6bn/Rs5.5bn in Q1FY17/Q2FY16.
- **Key highlights of con-call:** 1) Company expects 325MW of PPA to be signed with UP SEB by Q4FY17 2) Debt unchanged QoQ at Rs463bn 3) Australian coking coal mines commenced operations from end of September. Currently, operating at 65-70kt/month with further scale up to 85-100kt Feb onwards 4) Mozambique coal mine commenced production from 1st October with run-rate of 100kt/month. Would reach run-rate of 250kt by March 5) Spent Rs7.8bn on capex in H1 against budget of Rs22bn for FY17 6) Plans to commission the 4mtpa BF in Angul by Mar-17

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	199,365	189,100	243,232	293,620
Growth (%)	0.3	(5.1)	28.6	20.7
EBITDA (Rs m)	52,592	28,132	42,102	68,068
PAT (Rs m)	(315)	(16,662)	(20,804)	(5,878)
EPS (Rs)	(0.3)	(18.2)	(22.7)	(6.4)
Growth (%)	(101.8)	5,192.8	24.9	(71.7)
Net DPS (Rs)	—	—	—	—

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	26.4	14.9	17.3	23.2
RoE (%)	(0.1)	(8.5)	(12.3)	(3.8)
RoCE (%)	3.0	0.9	0.6	3.3
EV / sales (x)	2.5	2.8	2.2	1.8
EV / EBITDA (x)	9.5	18.8	12.8	7.8
PE (x)	(215.8)	(4.1)	(3.3)	(11.6)
P / BV (x)	0.3	0.4	0.4	0.4
Net dividend yield (%)	—	—	—	—

Source: Company Data; PL Research

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Exhibit 1: Q2FY17 Result Overview (Rs m)

Y/e March	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
Net Sales	44,854	45,420	(1.2)	45,361	90,216	89,104	1.2
Raw Material	14,850	15,822	(6.1)	13,701	28,551	31,976	(10.7)
% of Net Sales	33.1	34.8		30.2	31.6	35.9	
Staff Costs	2,222	2,632	(15.6)	2,269	4,491	5,467	(17.9)
% of Net Sales	5.0	5.8		5.0	5.0	6.1	
Power & Fuel	11,604	11,867	(2.2)	10,749	22,353	19,915	12.2
% of Net Sales	25.9	26.1		23.7	24.8	22.4	
Stores and spares	4,148	3,918	5.9	3,740	7,888	7,811	1.0
% of Net Sales	9.2	8.6		8.2	8.7	8.8	
Foreign exchange (gain)/loss	120	334	NA	76	196	46	NA
% of Net Sales	0.3	0.7		0.2	0.2	0.1	
Other Expenses	7,181	6,095	17.8	6,587	13,768	12,680	8.6
% of Net Sales	16.0	13.4		14.5	15.3	14.2	
Cost of captive sales	(1,953)	(3,327)	NA	(408)	(2,361)	(6,590)	NA
% of Net Sales	(4.4)	(7.3)		(0.9)	(2.6)	(7.4)	
Total Expenditure	38,172	37,340	2.2	36,714	74,885	71,306	5.0
EBITDA	6,683	8,080	(17.3)	8,647	15,330	17,799	(13.9)
Margin (%)	14.9	17.8		19.1	17.0	20.0	
Depreciation	9,986	8,440	18.3	9,171	19,157	18,401	4.1
Other income	1,808	1,174	54.1	1,505	3,313	2,403	37.9
EBIT	(1,495)	814	NA	981	(514)	1,801	NA
Interest	8,716	7,649	13.9	8,529	17,245	16,167	6.7
PBT	(10,211)	(6,835)	NA	(7,548)	(17,759)	(14,367)	NA
Extraordinary income/(expense)	-	(3,614)	NA	(6,257)	(6,257)	(3,614)	
PBT (After EO)	(10,211)	(10,449)	NA	(13,805)	(24,016)	(17,981)	NA
Tax	(2,739)	(588)	NA	(1,410)	(4,148)	(2,533)	NA
% PBT	26.8	5.6		10.2	17.3	14.1	
Reported PAT	(7,473)	(9,861)	NA	(12,395)	(19,868)	(15,448)	NA
Share of profit from associates	11	(66)	NA	14	26	(41)	NA
Minority interest	(2)	(832)	NA	(1,560)	(1,561)	(969)	NA
Net profit attributable to shareholders	(7,460)	(9,095)	NA	(10,822)	(18,281)	(14,520)	NA
Adjusted PAT attributable to shareholders	(7,460)	(5,481)	NA	(4,564)	(12,024)	(10,905)	NA

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e March	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
Standalone operations							
Steel products (000 tonnes)	810,000	780,000	3.8	780,000	1,590,000	1,600,000	(0.6)
Revenue (Rs m)	30,234	31,602	(4.3)	30,248	60,482	62,752	(3.6)
EBITDA (Rs m)	4,287	6,211	(31.0)	5,606	9,893	13,155	(24.8)
Reported PAT (Rs m)	(4,072)	(3,105)	NA	(2,767)	(6,838)	(6,819)	NA
Adjusted PAT (Rs m)	(4,072)	(3,105)	NA	(2,767)	(6,838)	(6,819)	NA
Jindal power Ltd							
Gross power generation (m units)	2,313	2,728	(15.2)	2,171	4,484	4,603	(2.6)
Realisation/unit (Rs)	7,340	8,930	(17.8)	6,680	14,020	15,090	(7.1)
Revenue (Rs m)	1,820	1,680	8.3	1,820	3,640	3,480	4.6
EBITDA (Rs m)	(2,050)	(1,530)	NA	(2,170)	(4,220)	(1,270)	NA
PAT (Rs m)	(2,050)	(1,530)	NA	(2,170)	(4,220)	(1,270)	NA
Shadeed Iron and steel							
Billet sales volumes (000 tonnes)	270	190	42.1	330	600	430	39.5
EBITDA (US\$m)	13	18	(24.6)	34	47	42	12.5

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	199,365	189,100	243,232	293,620
Raw Material Expenses	146,773	160,967	201,130	225,552
Gross Profit	52,592	28,132	42,102	68,068
Employee Cost	—	—	—	—
Other Expenses	—	—	—	—
EBITDA	52,592	28,132	42,102	68,068
Depr. & Amortization	27,328	28,194	38,161	39,767
Net Interest	26,058	32,527	34,444	38,044
Other Income	(14,633)	5,840	5,446	2,329
Profit before Tax	(15,428)	(26,749)	(25,057)	(7,413)
Total Tax	5,768	(6,763)	(2,669)	(239)
Profit after Tax	(21,196)	(19,986)	(22,389)	(7,174)
Ex-Od items / Min. Int.	(17,352)	(1,392)	1,585	1,296
Adj. PAT	(315)	(16,662)	(20,804)	(5,878)
Avg. Shares O/S (m)	914.9	914.9	914.9	914.9
EPS (Rs.)	(0.3)	(18.2)	(22.7)	(6.4)

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	9,884	43,320	43,263	61,908
C/F from Investing	(63,096)	(22,616)	(18,015)	(15,870)
C/F from Financing	55,157	(26,719)	(19,444)	(53,044)
Inc. / Dec. in Cash	1,945	(6,015)	5,804	(7,006)
Opening Cash	9,404	11,033	5,017	10,822
Closing Cash	11,033	5,017	10,822	3,815
FCFF	(110,588)	10,526	8,879	(8,664)
FCFE	(17,120)	21,420	23,879	(23,664)

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	0.3	(5.1)	28.6	20.7
EBITDA (%)	(1.2)	(46.5)	49.7	61.7
PAT (%)	(101.8)	5,192.8	24.9	(71.7)
EPS (%)	(101.8)	5,192.8	24.9	(71.7)
Profitability				
EBITDA Margin (%)	26.4	14.9	17.3	23.2
PAT Margin (%)	(0.2)	(8.8)	(8.6)	(2.0)
RoCE (%)	3.0	0.9	0.6	3.3
RoE (%)	(0.1)	(8.5)	(12.3)	(3.8)
Balance Sheet				
Net Debt : Equity	2.0	2.5	3.0	3.0
Net Wrkng Cap. (days)	13	(39)	(41)	(37)
Valuation				
PER (x)	(215.8)	(4.1)	(3.3)	(11.6)
P / B (x)	0.3	0.4	0.4	0.4
EV / EBITDA (x)	9.5	18.8	12.8	7.8
EV / Sales (x)	2.5	2.8	2.2	1.8
Earnings Quality				
Eff. Tax Rate	(37.4)	25.3	10.6	3.2
Other Inc / PBT	121.5	(33.6)	(21.7)	(31.4)
Eff. Depr. Rate (%)	4.5	4.5	6.0	5.9
FCFE / PAT	5,438.3	(128.6)	(114.8)	402.6

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	210,421	181,471	157,500	151,623
Total Debt	457,151	468,046	483,046	468,046
Other Liabilities	28,757	21,479	17,122	15,684
Total Liabilities	696,329	670,996	657,668	635,353
Net Fixed Assets	567,373	575,176	555,015	531,103
Goodwill	5,485	5,485	5,485	5,485
Investments	3,528	3,577	3,577	3,577
Net Current Assets	119,944	86,759	93,592	95,188
<i>Cash & Equivalents</i>	<i>26,184</i>	<i>6,873</i>	<i>12,677</i>	<i>5,671</i>
<i>Other Current Assets</i>	<i>152,797</i>	<i>144,281</i>	<i>154,039</i>	<i>168,735</i>
<i>Current Liabilities</i>	<i>59,037</i>	<i>64,396</i>	<i>73,125</i>	<i>79,218</i>
Other Assets	—	—	—	—
Total Assets	696,329	670,996	657,668	635,353

Quarterly Financials (Rs m)

Y/e March	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Net Revenue	41,333	51,537	45,361	44,854
EBITDA	3,218	7,650	8,647	6,683
<i>% of revenue</i>	7.8	14.8	19.1	14.9
Depr. & Amortization	6,378	9,346	9,171	9,986
Net Interest	8,061	8,584	8,529	8,716
Other Income	1,636	1,422	1,505	1,808
Profit before Tax	(7,976)	(6,792)	(13,805)	(10,211)
Total Tax	(2,120)	(3,161)	(1,410)	(2,739)
Profit after Tax	(5,735)	(3,714)	(10,822)	(7,460)
Adj. PAT	(6,917)	(4,818)	(5,203)	(7,460)

Key Operating Metrics

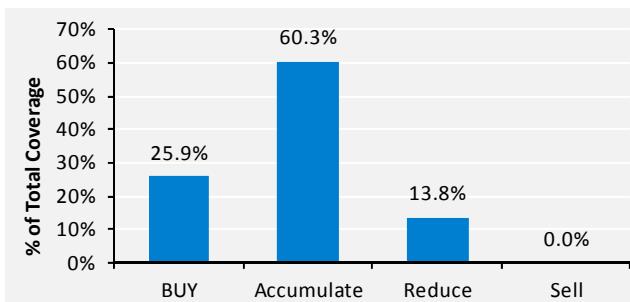
Y/e March	2015	2016	2017E	2018E
Standalone operations				
Metallics Sales (Tonnes)	63,471	193,419	183,350	163,650
Steel Prod. Sales (Tonnes)	2,739,500	3,068,852	3,678,521	4,639,098
Steel Sales Vol. (Tonnes)	2,802,971	3,262,271	3,861,871	4,802,748
Real. / tn-Steel	34,968	28,758	25,555	27,338
JSPL-Pwr (m kwh)	3,483	2,680	3,995	3,654
JSPL-Real/ Kwh	3	3	3	3
Stdalon Steel EBITDA(Rs m)	33,320	19,920	30,323	47,919
Stdalon Pwr EBITDA(Rs m)	2,821	1,397	1,198	1,096
Stdalon Total EBITDA (Rs m)	36,141	21,317	31,521	49,015
Stdalon PAT (Rs m)	(3,107)	(10,189)	(4,642)	2,145
Jindal Power Ltd				
JPL-Kwh sold (m)	7,653	5,261	8,769	12,595
JPL-Rate / Kwh	3	3	3	3
JPL-EBITDA(Rsm)	16,137	6,682	6,905	13,720
JPL-PAT (Rs m)	11,463	4,401	(13,923)	(5,859)
Shadeed iron and Steel				
Shadeed EBITDA (US\$ m)	112	95	129	154
PAT (US\$ m)	43	27	52	74

Source: Company Data, PL Research.

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