

Jindal Steel and Power

BSE SENSEX
48,944

S&P CNX
14,653


Bloomberg	JSP IN
Equity Shares (m)	1,020
M.Cap.(INRb)/(USDb)	458.8 / 6.1
52-Week Range (INR)	456 / 80
1, 6, 12 Rel. Per (%)	39/112/392
12M Avg Val (INR M)	3077

Financials & Valuations (INR b)

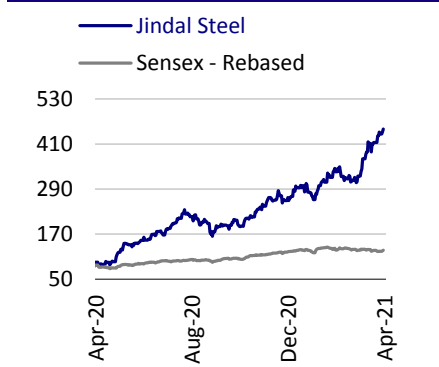
Y/E March	2021	2022E	2023E
Sales	385.5	413.9	414.7
EBITDA	147.2	130.6	117.7
Adj. PAT	58.3	48.0	44.1
Adj. EPS (INR)	57.1	47.1	43.2
EPS Gr. (%)	-836	-18	-8
BV/Sh. (INR)	303	351	394
RoE (%)	18.5	14.4	11.6
RoCE (%)	16.8	15.3	12.9
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	7.9	9.6	10.4
P/BV	1.5	1.3	1.1
EV/EBITDA (x)	4.8	4.9	4.9
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As on	Mar-21	Dec-20	Mar-20
Promoter	60.5	60.5	60.5
DII	16.9	15.4	12.4
FII	11.0	11.5	13.4
Others	11.6	12.6	13.8

FII Includes depository receipts

Stock performance (one-year)


CMP: INR450
TP: INR539 (+20%)
Buy

Power divestment to help expand Steel capacities

JPL deal valued ~5x FY22E EV/EBITDA

We have mixed feelings about the proposed sale of Jindal Power (JPL) by JSP. While we find the enterprise value (EV) of ~INR95b, implying ~5x FY22E EV/EBITDA, for the asset a bit underwhelming, it does improve the growth outlook for the Steel business by freeing up both the Balance Sheet and management bandwidth. JSPL has already announced its intent to double capacity at Angul to 12mtpa. Moreover, by hiving off thermal Power plants and reducing its carbon footprint, access to global capital should improve for JSP. The deal should also aid in better value discovery for the Steel business, which is still under-valued at 4.5x FY22E EV/EBITDA. Reiterate BUY.

Details of the deal

JSPL has entered into a share purchase agreement (SPA) with WorldOne, a group entity, to transfer its entire equity holding (~96% stake) in JPL at an EV of ~INR95b and equity value of ~INR30b, of which the cash consideration is INR30b. The deal is valued ~5x FY22E EV/EBITDA and ~INR28m/MWH capacity, which is at a discount of ~17% to recently concluded deals. The deal would reduce JSP's net debt by ~INR51b. The deal is likely to be completed over 12 months.

- **Details about JPL:** The company has 3,400MW capacity, of which 870MW (26%) capacity is tied with long-term PPAs. In Dec'20, JPL was allocated 6mtpa Gare Palma IV/1 block at an agreed premium of ~25%. Currently, it is operating ~50% PLF. JPL has a net debt of INR65b at the end of Dec'20. We expect JPL to achieve an EBITDA of INR25.8b in FY23E, supported by ramp-up of production in Gare Palma IV/1.
- **Inter-company transactions:** JSP owes INR43.8b to JPL, which were taken as loans (~INR15b) and advances (~INR29b) for transfer of the Power plant from JPL to JSP. The same has been converted into an unsecured loan, which will be repaid in three installments from the fifth to the seventh year. In addition to this, JSPL holds 5% non-convertible redeemable preference shares of INR70.5b in JPL, issued in 3QFY21, of which INR40.5b is cumulative. The preference shares are redeemable after 15 years and within 20 years.
- Taking into account the net present value of preference shares and inter-company debt, the EV of the deal works out to ~INR95b. This works out to ~5x FY22E EV/EBITDA and INR28m/MWH capacity.

Valuation and view

- Valuation of INR28m/MWH and the EV of INR95b is at a discount to our SoTP value of INR117b. The divestment should enhance focus on its Steel operations and should help in better value discovery for the business.
- We estimate JSP's net debt to reduce by INR130b over FY21E-23E to INR112b, driven by strong cash flows. We have not factored in JPL's divestment in our estimates.
- At the CMP, the stock trades at an attractive 4.5x FY22E EV/EBITDA for the Steel business, which is a significant discount to peers (TATA and JSTL).
- We expect JSP to re-rate and value the stock at 5.5x FY22E EV/EBITDA (earlier 5x) to arrive at a TP of INR539/share.

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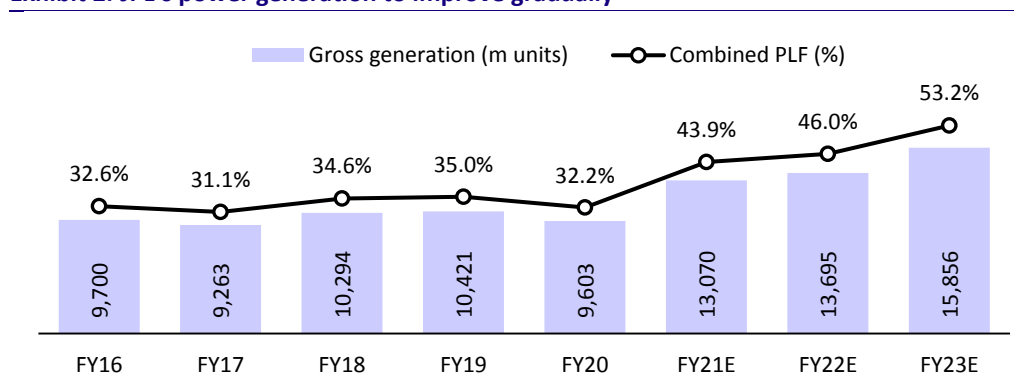
Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Exhibit 1: JPL – key financials

Income statement (INR m)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	30,150	31,190	40,810	37,820	37,580	45,326	49,280	57,355
EBITDA (INR m)	6,600	10,480	14,340	11,560	12,490	19,481	20,176	25,787
Adjusted PAT	-993	-4,474	-6,297	-4,185	-2,208	5,814	4,300	7,836
Gross generation (m units)	9,700	9,263	10,294	10,421	9,603	13,070	13,695	15,856
PLF (%)	33	31	35	35	32	44	46	53

Source: MOFSL, Company

Exhibit 2: JPL's power generation to improve gradually

Source: Company, MOFSL

Exhibit 3: JPL has 870MW (26%) capacity tied up in long-term PPAs

Project	Buyer	Type	From	To	Quantum (MW)
Tamnar II (Phase I)	Tamil Nadu	Long term	Feb'14	Sep'28	400
Tamnar II (Phase I)	KSEB	Long term	Jun'16	May'41	200
Tamnar II (Phase I)	KSEB	Long term	Oct'17	Sep'42	150
Tamnar II (Phase I)	Chhattisgarh	Long term	Throughout commercial operation of unit		60
Tamnar II (Phase II)	Chhattisgarh	Long term			60

Source: Company, MOFSL

Exhibit 4: JPL deal valuation vis-a-vis recent deals

Plant	Acquirer/potential acquirer	Capacity	Acquisition/settlement price (INR b)	Acquisition/settlement price (INR m/MW)
GMR Chhattisgarh (Raikheda)	Adani Power	1,370	35	25.8
JPVL Bara Prayagraj Power	Resurgent Power	1,980	60	30.3
SKS Power*	AgriTrade Resources	600	22	36.2
Total		3,950	117	33.8
JPL	WorldOne	3,400	95	27.9

Source: MOFSL; *600MW under construction

Valuation and view

- **Volume ramp-up continues:** Despite a 21% volume growth in FY21, JSP's capacity utilization would still be only 89% in FY21, implying potential growth of ~10% in steel volumes. It is currently operating near 100% capacity utilization.
- **EBITDA margin to stay strong:** We expect JSP to record its highest ever EBITDA/t of ~INR26,300/t in 4QFY21. Post exhaustion of zero-cost Sarda iron inventory (in 1QFY22), we expect steel EBITDA margin to be over INR14,900/t (v/s an average of ~INR9,500/t in FY16-20) due to better pricing, better sales mix, and operating leverage gains (95% plant utilization).

- **Turnaround in JPL operations on coal availability:** JPL has been operating at sub-35% PLF levels over the last few years due to lack of PPAs and tight coal supply. With the availability of cheaper coal from Gare Palma in FY23, we expect it to operate ~46%/~53% PLF in FY22E/FY23E. We expect 29% EBITDA CAGR over FY20-23E to INR25.8b. We have not yet factored in divestment of JPL into our estimates.
- **Deleveraging at comfortable levels to lead to a new phase of expansion:** Led by strong EBITDA growth, limited capex, and divestment proceeds, we estimate JSP's net debt to decline by INR205b (INR201/share) over FY20-22E to INR175b (INR171/share), implying a net debt-to-EBITDA of 1.3x. Divestment of JPL would further reduce debt by INR50b (not factored in). Comfortable debt levels would allow JSPL to increase its capacity. JSPL has already announced its intent to double capacity at Angul to 12mtpa.
- **Valuations remain comfortable:** At the CMP, the stock trades at an attractive 4.5x FY22E EV/EBITDA for the Steel business, which is at a significant discount to its peers (TATA and JSTL). Our SoTP-based TP of INR539/share is based on 5.5x FY22E EV/EBITDA (earlier 5x) for the Steel business and DCF valuation for the Power business.

Exhibit 5: Target price calculation

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Steel Business							
A. EBITDA				72,496	66,418	1,27,728	1,10,382
B. Target EV/EBITDA (x)							5.5
C. EV (AxB)							6,07,099
Jindal Power (JPL)							
D. PV of JPL's FCFF							1,16,842
Consolidated							
EBITDA	34,410	46,613	64,691	84,056	78,539	1,47,209	1,30,558
E. Enterprise Value (C+D)							7,23,941
F. Net Debt	4,63,928	4,61,427	4,38,319	4,10,943	3,78,846	2,42,748	1,74,568
Equity Value (E-F)							5,49,372
Target price (INR/share)							539

Source: MOFSL, Company

Story in charts

Exhibit 6: Sales* to increase by ~11% CAGR over FY20-23E

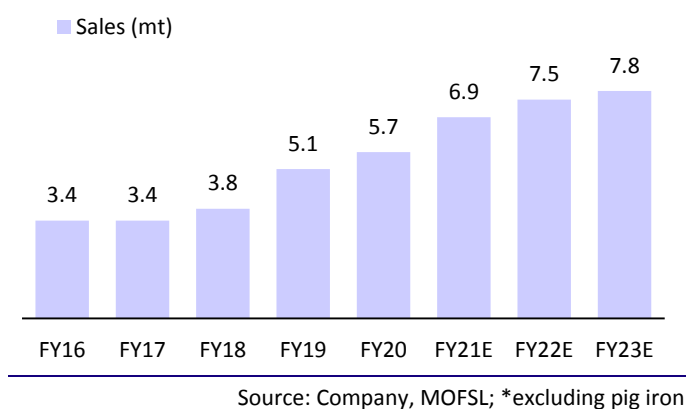


Exhibit 7: EBITDA/t to remain strong in the medium term

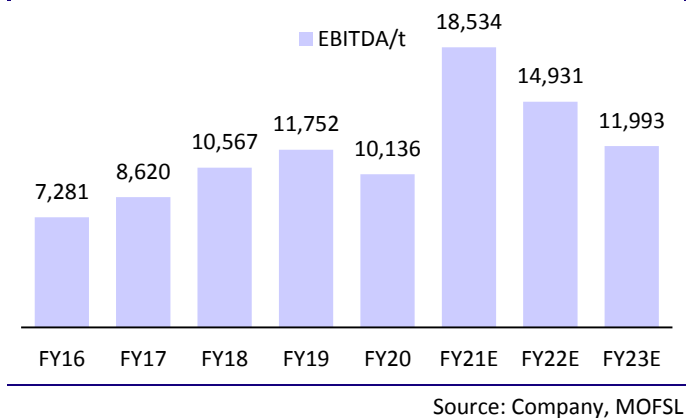


Exhibit 8: JPL's power generation trend

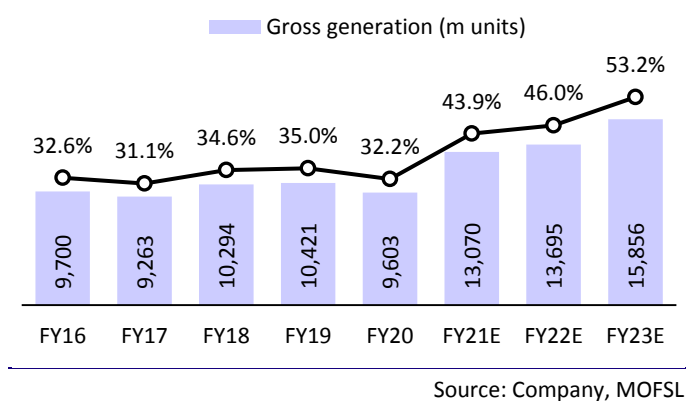


Exhibit 9: Consolidated EBITDA to grow ~20% CAGR over FY20-23E (excluding Oman EBITDA)

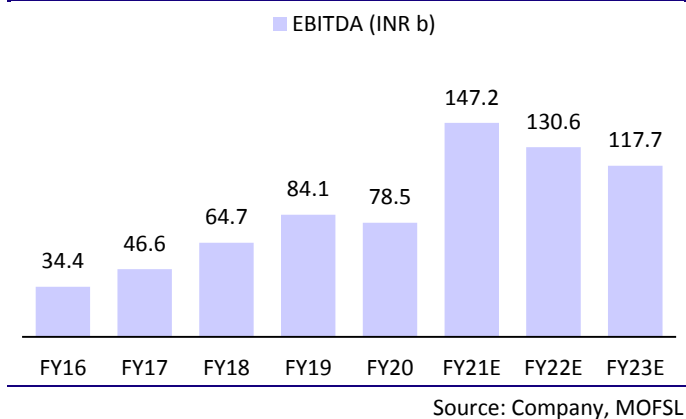


Exhibit 10: Higher OCF and lower capex to keep FCF strong

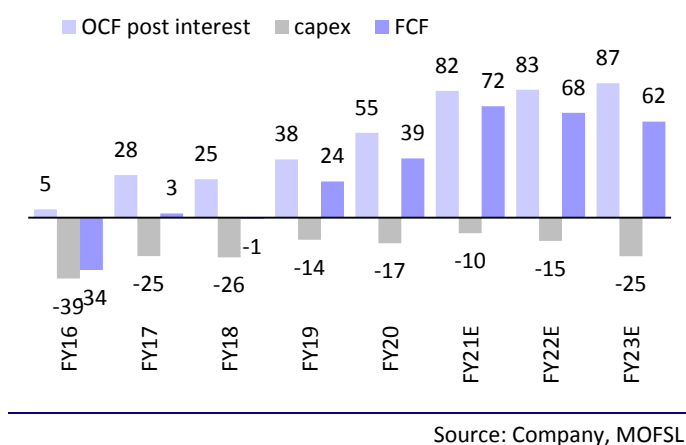
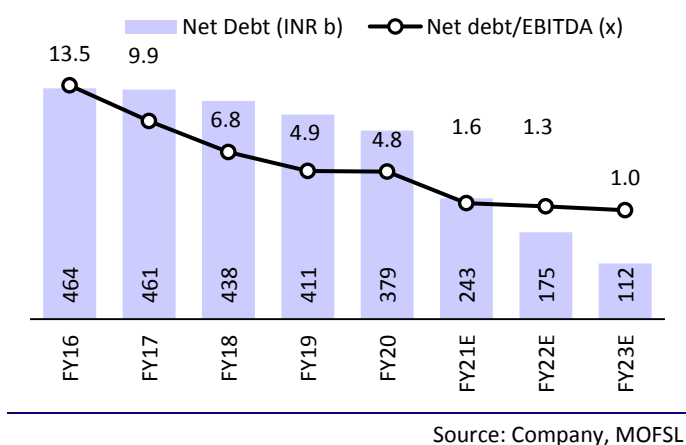


Exhibit 11: Net debt to decline by INR204b over FY20-22E



Financials and valuations

Income Statement (Consolidated)							(INR m)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net sales	1,83,709	2,10,194	2,76,244	3,93,721	3,69,955	3,85,537	4,13,922	4,14,703
Change (%)	-8.9	14.4	31.4	42.5	-6.0	4.2	7.4	0.2
Total Expenses	1,49,299	1,63,581	2,11,553	3,09,666	2,91,416	2,38,328	2,83,365	2,96,969
EBITDA	34,410	46,613	64,691	84,056	78,539	1,47,209	1,30,558	1,17,733
% of Net Sales	18.7	22.2	23.4	21.3	21.2	38.2	31.5	28.4
Depn. and Amortization	28,194	39,490	38,830	41,938	41,604	34,765	34,312	36,574
EBIT	6,216	7,122	25,861	42,118	36,935	1,12,444	96,246	81,159
Net Interest	32,808	34,240	38,657	42,642	41,493	31,337	28,680	20,529
Other income	2,200	411	29	157	262	3,907		
PBT before EO	-24,391	-26,706	-12,767	-367	-4,296	85,015	67,566	60,630
EO income	-2,358	-3,723	-5,874	-27,650	1,838	-3,615	0	0
PBT after EO	-26,750	-30,429	-18,641	-28,017	-2,458	81,400	67,566	60,630
Tax	-6,763	-5,027	-2,398	-3,902	1,539	18,405	17,022	16,243
Rate (%)	25.3	16.5	12.9	13.9	-62.6	22.6	25.2	25.2
Reported PAT	-19,987	-25,402	-16,243	-24,115	-3,996	62,995	50,544	44,388
Minority interest	-980	-2,524	-2,064	-7,644	-2,150	5,001	2,501	290
Preference dividend	0	0	0	0	0	0	0	0
Share of Associates	-14	27	87	0	0	0	0	0
Adjusted PAT	-16,662	-19,128	-8,218	3,178	-3,683	58,321	48,043	44,097
Change (%)	-363.0	14.8	-57.0	-138.7	NA	-835.5	-17.6	-8.2

Balance Sheet (Consolidated)							(INR m)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	915	915	968	968	1,020	1,020	1,020	1,020
Reserves	1,80,556	2,99,590	3,02,878	3,23,309	3,20,351	3,08,456	3,56,500	4,00,597
Net Worth	1,81,471	3,00,505	3,03,846	3,24,276	3,21,371	3,09,476	3,57,520	4,01,617
Minority Interest	8,003	6,467	4,403	-3,011	-7,764	7,901	10,402	10,692
Total Loans	4,70,132	4,66,571	4,43,104	4,15,227	3,88,749	2,59,404	2,09,404	1,59,404
Deferred Tax Liability	13,477	53,586	50,284	53,643	56,225	51,544	55,700	56,668
Capital Employed	6,73,082	8,27,129	8,01,638	7,90,135	7,58,580	6,28,325	6,33,026	6,28,381
Gross Block	6,27,116	7,83,127	8,46,580	9,00,003	9,50,772	8,14,934	8,24,934	8,34,934
Less: Accum. Deprn.	1,78,233	1,29,476	1,68,002	2,09,940	2,51,544	2,68,405	3,02,717	3,39,291
Net Fixed Assets	4,48,883	6,53,651	6,78,578	6,90,063	6,99,228	5,46,528	5,22,216	4,95,642
Capital WIP	1,18,266	97,162	49,775	40,272	19,745	19,745	24,745	39,745
Goodwill and Revaluation	5,485	5,670	5,922	6,164	6,098	6,098	6,098	6,098
Investments	3,577	3,677	1,458	1,452	1,430	1,430	1,430	1,430
Curr. Assets	1,59,182	1,45,820	1,56,572	1,57,902	1,70,917	1,89,782	2,16,128	2,28,803
Inventory	32,360	35,993	49,596	65,095	63,687	73,939	79,382	79,532
Account Receivables	14,292	17,166	18,261	30,292	35,493	36,969	39,691	39,766
Cash and Bank Balance	6,204	5,144	4,786	4,284	9,519	16,656	34,836	47,286
Loans and advances and others	1,06,326	87,517	83,930	58,231	62,219	62,219	62,219	62,219
Curr. Liability and Prov.	62,310	78,850	90,667	1,05,718	1,38,838	1,35,259	1,37,592	1,43,337
Account Payables	42,186	22,221	28,434	32,087	35,651	31,688	34,021	39,766
Provisions and Others	20,124	56,629	62,233	73,631	1,03,187	1,03,571	1,03,571	1,03,571
Net Current Assets	96,872	66,970	65,905	52,184	32,079	54,523	78,536	85,465
Appl. of Funds	6,73,082	8,27,129	8,01,638	7,90,135	7,58,581	6,28,325	6,33,026	6,28,381

Financials and valuations

Ratios (Consolidated)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)								
EPS	(18.2)	(20.9)	(8.5)	3.3	(3.6)	57.1	47.1	43.2
Cash EPS	9.0	15.4	23.3	18.4	36.9	95.8	83.2	79.4
BV/Share	198.4	328.4	313.9	335.0	315.1	303.4	350.5	393.7
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E				87.8	(52.7)	7.9	9.6	10.4
Cash P/E				15.6	7.8	4.7	5.4	5.7
P/BV				0.9	0.9	1.5	1.3	1.1
EV/Sales				1.8	1.8	1.8	1.5	1.4
EV/EBITDA				8.2	8.6	4.8	4.9	4.9
Dividend Yield (%)				0.0	0.0	0.0	0.0	0.0
Return Ratios (%)								
EBITDA Margin (%)	18.7	22.2	23.4	21.3	21.2	38.2	31.5	28.4
Net Profit Margin (%)	(9.1)	(9.1)	(3.0)	0.8	(1.0)	15.1	11.6	10.6
RoE	(8.5)	(7.9)	(2.6)	1.0	(1.1)	18.5	14.4	11.6
RoCE (pre-tax)	1.2	1.0	3.2	5.3	4.8	16.8	15.3	12.9
RoIC (pre-tax)	1.1	1.1	3.6	5.7	5.1	17.2	16.7	14.8
Working Capital Ratios								
Fixed Asset Turnover (x)	0.3	0.3	0.4	0.5	0.5	0.7	0.7	0.8
Asset Turnover (x)	0.3	0.3	0.3	0.5	0.5	0.4	0.4	0.4
Inventory (Days)	64	63	66	60	63	70	70	70
Debtor (Days)	28	30	24	28	35	35	35	35
Payable (Days)	84	39	38	30	35	30	30	35
Leverage Ratio (x)								
Current Ratio	2.6	1.8	1.7	1.5	1.2	1.4	1.6	1.6
Interest Coverage Ratio	0.2	0.2	0.7	1.0	0.9	3.6	3.4	4.0
Debt/Equity	2.6	1.5	1.4	1.3	1.2	0.8	0.5	0.3

Cash Flow Statement (Consolidated)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
(INR m)								
EBITDA	34,410	46,613	64,691	84,056	78,539	1,47,209	1,30,558	1,17,733
Non-cash exp. (income)	-4,581	-1,020	2,853	1,262	1,569			
(Inc.)/Dec. in Wkg. Cap.	11,762	7,190	-9,267	-23,983	-771	-15,691	-5,833	5,521
Tax Paid	-170	450	-553	296	35	-14,086	-12,865	-15,275
Others		15,840	14,101	22,001	15,894	-3,615		
CF from Op. Activity	41,422	69,072	71,825	83,632	95,265	1,13,817	1,11,860	1,07,979
(Inc.)/Dec. in FA + CWIP	-39,500	-24,975	-25,767	-14,333	-16,646	-10,000	-15,000	-25,000
(Pur.)/Sale of Investments	15,904	5,164	12,299	2,436	339			
Acquisition in subsidiaries	1,052					3,750	0	0
Loans and advances	-1,337	-934	-2,376	3,044	-219			
Int. and Dividend Income	2,292	754	1,533	532	527	3,907	0	0
Other investing activities	1,699	1,511	-533	-533				
CF from Inv. Activity	-19,889	-18,481	-14,845	-8,853	-15,999	-2,343	-15,000	-25,000
Equity raised/(repaid)	0	0	13,883	0	5,129			
Debt raised/(repaid)	9,230	-10,256	-24,391	-30,260	-40,676	-73,000	-50,000	-50,000
Dividend (incl. tax)	-8	0	15	-18	-18	0	0	0
Interest paid	-35,941	-41,396	-46,845	-45,699	-40,054	-31,337	-28,680	-20,529
Other financing	0							
CF from Fin. Activity	-26,719	-51,651	-57,338	-75,280	-74,032	-1,04,337	-78,680	-70,529
(Inc.)/Dec. in Cash	-5,187	-1,060	-358	-502	5,235	7,137	18,180	12,450
Add: Opening Balance	11,391	6,204	5,144	4,786	4,284	9,519	16,656	34,836
Closing Balance	6,204	5,144	4,786	4,284	9,519	16,656	34,836	47,286

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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