

Jindal Steel and Power

BUY

Expansion at Angul in full swing

Summary

We visited Jindal Steel's Angul steel plant in Odisha and interacted with employees. The company's current capacity at Angul is 5 mtpa which is likely to increase to 6 mtpa by end of FY22 and further to 12 mtpa (phase 2) by FY25. JSPL has the land of 5,000 acres at Angul where it can expand capacity upto 30 mtpa via brownfield expansions – this, alongside its strong balance sheet provides expansion opportunities over the coming 5-10 years. Its Angul phase 2 expansion is proposed at a modest capex of \$400/t which is among the lowest in the industry. The projects, which are expected to increase steel capacity by 66% and pellet by 133%, will be commissioned gradually from Sept '22 to Feb'25 and will be largely funded by internal cash flows. JSPL also aims to build a slurry pipeline for transporting iron ore to its plant which will bring down logistics cost from Rs1,200/t to Rs500/t. We maintain our estimates and BUY rating on the stock.

Key Highlights and Investment Rationale

■ Deleveraging to continue; brownfield expansion provides growth visibility

JSPL announced its intention to become net debt free by FY23. With Angul expansion, JSPL aims to increase its steel-making capacity in India from 9 mtpa in FY21 to 16 mtpa by FY25. Also, its pellet capacity will be enhanced from 9 mtpa to 21 mtpa during the same period. These expansions will entail capex of Rs180 bn.

■ Outlook: JSPL's visibility on volume growth remains robust backed by strong balance sheet and proven execution. Looking ahead, it will continue to deleverage balance sheet as it benefits from a strong steel cycle. We believe JSPL stock is likely to be a re-rating candidate over coming few years as 1) it completes sale of Power business (Jindal Power), 2) it continues to delverage balance sheet, and 3) it expands steel capacities.

TP Rs540

CMP Rs385

Potential upside/downside +40%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	7.2	(4.1)	42.6
Rel to Sensex	4.6	(4.8)	18.9

V/s Consensus

EBITDA (Rs)	FY23E	FY24E
IDBI Capital	80.6	72.9
Consensus	65.5	67.2
% difference	23.0	8.4

Key Stock Data

Bloomberg / Reuters JSP IN/JNSP.BO

Sector Metal & Mining

Shares o/s (mn) 1,020

Market cap. (Rs mn) 393,091

3-m daily average value (Rs mn) 270.2

52-week high / low Rs 502 / 258

Sensex / Nifty 59,183 / 17,626

Shareholding Pattern (%)

Promoters	60.5
FII	9.9
DII	14.9
Public	14.7

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	369,175	389,886	577,949	560,847	557,800
Change (yoy, %)	(6)	6	48	(3)	(1)
EBITDA	78,539	144,443	178,201	155,588	139,371
Change (yoy, %)	(7)	84	23	(13)	(10)
EBITDA Margin(%)	21.3	37.0	30.8	27.7	25.0
Adj.PAT	2	66,678	100,698	82,169	74,397
EPS (Rs)	0.0	65.4	98.7	80.6	72.9
Change (yoy, %)	nm	nm	51.0	(18.4)	(9.5)
PE(x)	nm	6.5	4.3	5.2	5.8
Dividend Yield (%)	-	-	0.4	0.7	0.9
EV/EBITDA (x)	9.9	4.0	3.1	3.0	2.8
RoE (%)	0.0	20.9	27.4	18.0	14.0
RoCE (%)	5.5	16.7	23.6	19.6	16.2

Source: IDBI Capital Research

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Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	393,721	369,175	389,886	577,949	560,847	557,800
<i>Change (yoy, %)</i>	44	(6)	6	48	(3)	(1)
Operating expenses	(309,666)	(290,636)	(245,444)	(399,749)	(405,259)	(418,428)
EBITDA	84,056	78,539	144,443	178,201	155,588	139,371
<i>Change (yoy, %)</i>	30	(7)	84	23	(13)	(10)
<i>Margin (%)</i>	21.3	21.3	37.0	30.8	27.7	25.0
Depreciation	(54,804)	(38,672)	(34,533)	(36,260)	(36,623)	(37,899)
EBIT	29,252	39,867	109,909	141,941	118,965	101,472
Interest paid	(42,642)	(41,493)	(30,933)	(18,661)	(15,344)	(8,331)
Other income	157	262	5,389	5,820	5,937	6,055
Pre-tax profit	(28,017)	(2,458)	72,956	129,099	109,558	99,197
Tax	3,902	(1,539)	(17,687)	(28,402)	(27,390)	(24,799)
<i>Effective tax rate (%)</i>	14	(63)	24	22	25	25
Minority Interest	7,661.8	2,905.3	-	-	-	-
Net profit	(16,453)	(1,092)	55,269	100,698	82,169	74,397
Exceptional items	(14,784)	(1,094)	(11,409)	-	-	-
Adjusted net profit	(1,669)	2	66,678	100,698	82,169	74,397
<i>Change (yoy, %)</i>	(80)	nm	nm	51	(18)	(9)
EPS	(1.7)	nm	nm	98.7	80.6	72.9
Dividend per sh	-	-	nm	2	3	4
<i>Dividend Payout %</i>	-	-	nm	2	4	5

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	324,276	321,371	318,147	416,908	496,173	566,699
Share capital	968	1,020	1,020	1,020	1,020	1,020
Reserves & surplus	323,309	320,351	317,127	415,888	495,153	565,679
Total Debt	347,661	356,642	215,512	145,512	50,512	30,512
Other liabilities	58,003	56,232	62,395	62,395	62,395	62,395
Curr Liab & prov	168,923	170,939	191,127	121,491	123,054	126,789
Current liabilities	164,559	166,997	187,073	117,436	118,999	122,734
Provisions	4,365	3,942	4,055	4,055	4,055	4,055
Total liabilities	574,588	583,813	469,035	329,398	235,961	219,696
Total equity & liabilities	895,853	897,420	778,404	737,529	723,357	777,618
Net fixed assets	736,442	725,071	560,612	549,506	552,883	554,984
Investments	1,509	1,806	11,555	11,555	11,555	11,555
Other non-curr assets	14,788	11,009	13,159	13,159	13,159	13,159
Current assets	143,114	159,533	193,078	163,309	145,760	197,920
Inventories	65,095	63,687	59,426	69,189	69,189	70,143
Sundry Debtors	30,292	35,493	27,944	30,963	30,963	30,047
Cash and Bank	4,216	9,062	61,522	23,390	9,817	65,519
Loans and advances	-	-	-	-	-	-
Other current assets	43,511	51,291	44,186	39,767	35,791	32,212
Total assets	895,853	897,420	778,404	737,529	723,357	777,618

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	(28,017)	(2,458)	72,956	129,099	109,558	99,197
Depreciation	40,350	40,321	13,039	36,260	36,623	37,899
Tax paid	7,261	1,044	(11,519)	(28,402)	(27,390)	(24,799)
Chg in working capital	6,510	(1,777)	31,999	(82,419)	1,563	3,698
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	26,104	37,130	106,475	54,539	120,354	115,994
Capital expenditure	(42,575)	(28,950)	151,420	(25,154)	(40,000)	(40,000)
Chg in investments	6	(297)	(9,750)	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(42,569)	(29,247)	141,671	(25,154)	(40,000)	(40,000)
Equity raised/(repaid)	-	52	-	-	-	-
Debt raised/(repaid)	(44,327)	8,981	(141,130)	(70,000)	(95,000)	(20,000)
Dividend (incl. tax)	-	-	-	(1,936)	(2,904)	(3,872)
Chg in minorities	248	(1,848)	(1,013)	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(44,080)	7,185	(142,143)	(71,936)	(97,904)	(23,872)
Net chg in cash (a+b+c)	(60,545)	15,067	106,003	(42,551)	(17,549)	52,122

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	335	315	312	409	486	556
Adj EPS (Rs)	-1.7	0.0	65.4	98.7	80.6	72.9
Adj EPS growth (%)	-79.7	-100.1	nm	51.0	(18.4)	(9.5)
EBITDA margin (%)	21.3	21.3	37.0	30.8	27.7	25.0
Pre-tax margin (%)	-7.1	-0.7	18.7	22.3	19.5	17.8
Net Debt/Equity (x)	1.1	1.1	0.5	0.3	0.1	(0.1)
ROCE (%)	3.9	5.5	16.7	23.6	19.6	16.2
ROE (%)	-0.5	0.0	20.9	27.4	18.0	14.0
DuPont Analysis						
Asset turnover (x)	0.4	0.4	0.5	0.8	0.8	0.7
Leverage factor (x)	2.8	2.8	2.6	2.1	1.6	1.4
Net margin (%)	-0.4	0.0	17.1	17.4	14.7	13.3
Working Capital & Liquidity ratio						
Inventory days	60	63	56	44	45	46
Receivable days	28	35	26	20	20	20
Payable days	62	87	72	52	52	52

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	-244.7	nm	nm	4.3	5.2	5.8
Price/Book value (x)	1.3	1.3	1.4	1.0	0.9	0.8
EV/Net sales (x)	1.9	2.1	1.5	1.0	0.8	0.7
EV/EBITDA (x)	8.9	9.9	4.0	3.1	3.0	2.8
Dividend Yield (%)	0.0	0.0	0.0	0.4	0.7	0.9

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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