

November 4, 2019

Event Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		ACCUMULATE	
Target Price	170		125	
Sales (Rs. m)	386,462	400,436	387,015	402,777
% Chng.	(0.1)	(0.6)		
EBITDA (Rs. m)	75,686	81,970	78,577	84,224
% Chng.	(3.7)	(2.7)		
EPS (Rs.)	(8.5)	(0.6)	(6.3)	1.7
% Chng.	NA	NA		

Key Financials - Consolidated

Ye Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	279,727	395,195	386,462	400,436
EBITDA (Rs. m)	64,691	84,056	75,686	81,970
Margin (%)	23.1	21.3	19.6	20.5
PAT (Rs. m)	(13,098)	(883)	(8,611)	(625)
EPS (Rs.)	(12.9)	(0.9)	(8.5)	(0.6)
Gr. (%)	(55.8)	(93.3)	875.2	(92.7)
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(4.3)	(0.3)	(2.7)	(0.2)
RoCE (%)	3.5	5.8	4.7	5.9
EV/Sales (x)	2.0	1.3	1.3	1.2
EV/EBITDA (x)	8.7	6.3	6.7	5.8
PE (x)	(10.6)	(157.8)	(16.2)	(223.1)
P/BV (x)	0.5	0.4	0.4	0.4

Key Data

JNSP.BO | JSP IN

52-W High / Low	Rs.193 / Rs.91
Sensex / Nifty	40,302 / 11,941
Market Cap	Rs.140bn/ \$ 1,978m
Shares Outstanding	1,020m
3M Av g. Daily Value	Rs.4995.59m

Shareholding Pattern (%)

Promoter's	60.52
Foreign	15.13
Domestic Institution	8.85
Public & Others	15.50
Promoter Pledge (Rs bn)	39.79

Stock Performance (%)

	1M	6M	12M
Absolute	46.4	(24.5)	(25.8)
Relative	36.9	(27.0)	(35.5)

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Regains coal block at attractive price, Upgrade to BUY

Jindal Steel and Power (JSP) won Gare Palma IV/1 coal block in auction at Rs230/t. The coal block has extraction capacity of 6mtpa with reserves of ~160mnt. Before cancellation by the honorable Supreme Court in September-2014, the block was owned and operated by JSP to meet coal requirement of its sponge iron ore and CPP at Raigarh plant. Benefitted by proximity of mine to its plant and owned infrastructure, JSP was best placed to win the auction. We see the bid as a significant positive development for JSP as this would lower its coal cost by Rs1,300/t (for 6mtpa of coal) along with much needed raw material security in wake of severe shortage of domestic coal. We expect coal block to add Rs46bn (Rs46/share) to the equity value based on EV/EBITDA of 5.5x to the assumed cost saving of Rs8.3bn. Led by key positive change on cost and RM security, sharp increase in production and strong scope for improvement in Jindal Power, we upgrade the stock to BUY with TP of Rs170.

- JSPL, best equipped to maximize the value from mine:** Strong asset portfolio with pithead CPP of 850MW, dedicated screening and washery facilities, 1.4mtpa sponge iron ore plant at distance of mere 40km from mines and most importantly, enough land for storage of dump, enables JSP to optimise the value from Gare Palma IV/1 coal block. Additionally, it would lower working capital by Rs1.5bn.
- Coal cost to come down by Rs1300/t with option to sell 25% of production in open market:** JSP procures coal at an average cost of ~Rs2900/t for its steel and CPP operations. Low share of Linkage coal (~40%) and higher freight (at Rs750/t) cost remained key drivers for high cost of coal. Cost would come down by 45% to Rs1,600/t in block auction on the back of lower freight cost (Rs250/t), replacement of expensive E-auction and lower premium bid in auction. Additionally, company has the option to sell 25% of output in open market depending on the availability of linkage coal.
- Would govt again make the mistake of cancelling coal auction due to low premiums?** The answer is No. In 2015, Govt of India canceled the bid won by BALCO for this coal block (at Rs1585/t) in auction conducted at that time for the reason of low bids. Undoubtedly, bid would look significantly low at Rs230/t. However, this is justified given the weak profitability of sector, raw material security available under linkage auction and strong competitive advantage of previous mine owner (JSP). We do not expect Govt to repeat the same mistake as it could lead to deterioration of business sentiments and raise doubts on its fair policy on allocation of mineral resources through auction route.

Coal cost would come down by 45% to ~Rs1,600/t. Raw material security and low cost would improve the earnings quality.

Coal block to add Rs46/share to our valuation.

Exhibit 1 : Estimated existing and future cost of coal procurement

Cost of coal in existing FSA+E-auction		Rs/t
Basic price		1,382
Royalty		214
Freight		750
Sizing, transportation and evacuation charges		170
Energy cess		400
Total		2,916

Cost of coal in coal block auction		Rs/t
Premium in auction		230
Mining cost		500
Royalty		214
Freight		250
Energy cess		400
Total		1,594

Source: PL

Exhibit 2 : Valuation Metrics - Post auction of Gare Palma IV/1 block

Figure in Rs mn	FY21E	EV/EBITDA (x)	Value (Rs mn)
Standalone operations	61,848	5.4	333,977
Shadeed EBITDA	7,497	5.0	37,485
Jindal power	13,648	7.5	102,359
Gare Palma IV/1 coal	8,000	5.5	44,000
Others	(1,022)	5.5	(5,623)
Total EV			512,198
Net debt			339,020
Total Shareholder's value			173,178
Value per share			170

Source: PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	279,727	395,195	386,462	400,436
YoY gr. (%)	29.2	41.3	(2.2)	3.6
Cost of Goods Sold	215,036	311,139	310,775	318,466
Gross Profit	64,691	84,056	75,686	81,970
Margin (%)	23.1	21.3	19.6	20.5
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	64,691	84,056	75,686	81,970
YoY gr. (%)	37.4	29.9	(10.0)	8.3
Margin (%)	23.1	21.3	19.6	20.5
Depreciation and Amortization	38,830	41,938	42,284	42,319
EBIT	25,861	42,118	33,402	39,651
Margin (%)	9.2	10.7	8.6	9.9
Net Interest	38,657	42,642	43,672	40,893
Other Income	29	157	-	-
Profit Before Tax	(18,641)	(28,017)	(10,270)	(1,241)
Margin (%)	(6.7)	(7.1)	(2.7)	(0.3)
Total Tax	(2,398)	(3,902)	2,241	3,181
Effective tax rate (%)	12.9	13.9	(21.8)	(256.3)
Profit after tax	(16,242)	(24,115)	(12,511)	(4,423)
Minority interest	(2,064)	(7,662)	(3,900)	(3,798)
Share Profit from Associate	87	-	-	-
Adjusted PAT	(13,098)	(883)	(8,611)	(625)
YoY gr. (%)	(51.0)	(93.3)	875.2	(92.7)
Margin (%)	(4.7)	(0.2)	(2.2)	(0.2)
Extra Ord. Income / (Exp)	(5,118)	(23,799)	-	-
Reported PAT	(14,091)	(16,453)	(8,611)	(625)
YoY gr. (%)	(38.2)	16.8	(47.7)	(92.7)
Margin (%)	(5.0)	(4.2)	(2.2)	(0.2)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(14,091)	(16,453)	(8,611)	(625)
Equity Shares O/s (m)	1,016	1,016	1,016	1,016
EPS (Rs)	(12.9)	(0.9)	(8.5)	(0.6)

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	846,580	910,998	926,253	937,165
Tangibles	846,580	910,998	926,253	937,165
Intangibles	-	-	-	-
Acc: Dep / Amortization	168,002	220,935	263,219	305,538
Tangibles	168,002	220,935	263,219	305,538
Intangibles	-	-	-	-
Net fixed assets	678,578	690,063	663,034	631,627
Tangibles	678,578	690,063	663,034	631,627
Intangibles	-	-	-	-
Capital Work In Progress	57,738	47,806	40,571	37,929
Goodwill	5,922	6,164	6,164	6,164
Non-Current Investments	4,762	5,059	5,059	5,059
Net Deferred tax assets	(50,284)	(53,643)	(54,301)	(55,232)
Other Non-Current Assets	2,070	3,629	3,629	3,629
Current Assets				
Investments	2	50	50	50
Inventories	49,596	65,095	65,172	65,131
Trade receivables	18,261	30,292	30,166	30,454
Cash & Bank Balance	4,784	4,234	2,700	1,570
Other Current Assets	49,075	36,009	36,412	36,988
Total Assets	892,304	895,853	860,409	826,053
Equity				
Equity Share Capital	1,016	1,016	1,016	1,016
Other Equity	302,830	323,261	319,701	319,076
Total Network	303,846	324,276	320,717	320,092
Non-Current Liabilities				
Long Term borrowings	429,621	395,590	370,590	340,590
Provisions	2,782	3,147	3,147	3,147
Other non current liabilities	3	4	4	4
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	41,918	52,473	53,175	55,046
Other current liabilities	52,570	65,640	61,295	58,561
Total Equity & Liabilities	892,304	895,853	860,409	826,054

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	(18,641)	(28,017)	(10,270)	(1,241)
Add. Depreciation	38,830	54,804	42,284	42,319
Add. Interest	38,657	42,642	43,672	40,893
Less Financial Other Income	29	157	-	-
Add. Other	8,697	15,890	-	-
Op. profit before WC changes	67,544	85,318	75,686	81,970
Net Changes-WC	10,252	4,654	(3,996)	(1,686)
Direct tax	(553)	296	(1,583)	(2,251)
Net cash from Op. activities	77,243	90,269	70,107	78,033
Capital expenditures	(16,217)	(11,897)	(8,020)	(8,270)
Interest / Dividend Income	-	-	-	-
Others	1,905	3,576	-	-
Net Cash from Inv. activities	(14,312)	(8,321)	(8,020)	(8,270)
Issue of share cap. / premium	13,883	-	5,051	-
Debt changes	(29,809)	(36,897)	(25,000)	(30,000)
Dividend paid	-	-	-	-
Interest paid	(46,845)	(45,699)	(43,672)	(40,893)
Others	15	(18)	-	-
Net cash from Fin. activities	(62,756)	(82,614)	(63,621)	(70,893)
Net change in cash	175	(666)	(1,534)	(1,130)
Free Cash Flow	51,476	75,936	62,087	69,763

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20E
Net Revenue	95,657	101,590	99,456	86,007
YoY gr. (%)	38.6	19.2	2.9	(13.8)
Raw Material Expenses	37,612	43,450	40,826	-
Gross Profit	58,045	58,140	58,630	86,007
Margin (%)	60.7	57.2	59.0	100.0
EBITDA	20,770	18,447	21,731	17,283
YoY gr. (%)	36.8	(10.5)	(4.5)	(21.7)
Margin (%)	21.7	18.2	21.8	20.1
Depreciation / Depletion	10,357	10,867	10,536	10,500
EBIT	10,413	7,580	11,195	6,783
Margin (%)	10.9	7.5	11.3	7.9
Net Interest	10,424	11,631	11,090	10,900
Other Income	148	-	8	-
Profit before Tax	137	(34,255)	113	(4,117)
Margin (%)	0.1	(33.7)	0.1	(4.8)
Total Tax	1,008	(7,122)	987	312
Effective tax rate (%)	737.1	20.8	875.5	(7.6)
Profit after Tax	(872)	(27,133)	(874)	(4,429)
Minority interest	(632)	(5,676)	(968)	(1,000)
Share Profit from Associates	-	-	-	-
Adjusted PAT	(240)	8,746	94	(3,429)
YoY gr. (%)	(91.0)	575.2	(94.8)	(488.7)
Margin (%)	(0.3)	8.6	0.1	(4.0)
Extra Ord. Income / (Exp)	-	(30,204)	-	-
Reported PAT	(240)	(21,458)	94	(3,429)
YoY gr. (%)	(91.0)	596.4	(94.8)	(199.8)
Margin (%)	(0.3)	(21.1)	0.1	(4.0)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(240)	(21,458)	94	(3,429)
Av g. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	(12.9)	(0.9)	(8.5)	(0.6)
CEPS	25.3	40.4	33.1	41.0
BVPS	299.1	319.2	315.7	315.1
FCF	50.7	74.7	61.1	68.7
DPS	-	-	-	-
Return Ratio(%)				
RoCE	3.5	5.8	4.7	5.9
ROIC	3.0	5.0	5.8	20.9
RoE	(4.3)	(0.3)	(2.7)	(0.2)
Balance Sheet				
Net Debt : Equity (x)	1.4	1.2	1.1	1.1
Net Working Capital (Days)	34	40	40	37
Valuation(x)				
PER	(10.6)	(157.8)	(16.2)	(223.1)
P/B	0.5	0.4	0.4	0.4
P/CEPS	5.4	3.4	4.1	3.3
EV/EBITDA	8.7	6.3	6.7	5.8
EV/Sales	2.0	1.3	1.3	1.2
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Standalone operations				
Metallics Sales (Tonnes)		105	21,425	4,772
Steel Prod. Sales (Tonnes)	3,770,000	5,120,000	5,892,630	6,053,206
Steel Sales Vol. (Tonnes)	3,770,000	5,120,105	5,914,055	6,057,978
Real. / tn-Steel	44,724	54,132	34,762	34,964
JSPL-Pwr (m kwh)			2,811	3,309
JSPL-Real/ Kwh	3	3	3	3
Stdalon Steel EBITDA(Rs m)	39,731	60,170	57,462	60,855
Stdalon Pwr EBITDA(Rs m)			843	993
Stdalon Total EBITDA (Rs m)	39,731	60,170	58,305	61,848
Stdalon PAT (Rs m)	(1,764)	3,823	5,260	7,074
Jindal Power Ltd				
JPL-Kwh sold (m)	11,240	9,935	10,322	11,335
JPL-Rate / Kwh	4	4	4	4
JPL-EBITDA(Rsm)	14,525	11,738	11,977	13,648
JPL-PAT (Rs m)	(6,427)	(7,236)	(5,525)	(2,666)
Shadeed iron and Steel				
Shadeed EBITDA (US\$ m)	221	181	91	106
PAT (US\$ m)		82	7	20

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	Accumulate	125	96
2	12-Sep-19	Accumulate	125	107
3	19-Aug-19	Accumulate	128	103
4	4-Jul-19	BUY	170	142
5	24-May-19	Accumulate	171	162
6	5-Apr-19	BUY	221	187
7	5-Feb-19	BUY	230	129
8	7-Jan-19	BUY	239	152

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	Accumulate	1,650	1,498
2	Ambuja Cement	Hold	207	208
3	Coal India	Accumulate	230	187
4	Heidelberg Cement India	Accumulate	215	188
5	Hindalco Industries	Accumulate	207	183
6	Hindustan Zinc	Hold	235	220
7	Jindal Steel & Power	Accumulate	125	96
8	JK Lakshmi Cement	Accumulate	380	301
9	JSW Steel	Reduce	185	223
10	NMDC	Reduce	90	97
11	Shree Cement	Reduce	18,500	18,260
12	Steel Authority of India	Reduce	32	31
13	Tata Steel	Reduce	355	340
14	The Ramco Cements	Hold	780	776
15	Ultratech Cement	BUY	5,125	4,147

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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