

Jindal steel and power

BSE Code	: 532286
Time Duration	: 18 months
CMP	: ₹160 (as on 26 November, 2018)
Target Price	: ₹210



**Swiftest Performers
Among Heavy Weights**

The Large Rhino for the month of November is Jindal Steel and Power, a company which is seeing turnaround in its net profits in FY18-19 after about three years of losses. It was impacted majorly by the de-allocation of coal blocks in Aug 2014. The company has been significantly investing since then in expanding its range of steel from liquid steel to finished steel and enhancing its product portfolio, including the widest range of flat and long products. The impact of the same has been enhanced due to better realisations in the steel segment which lifted the revenue and the EBTIDA margins. Subsequently, both CRISIL and CARE have updated the rating to 'Stable', which is positive for the company as it will lower the cost of borrowing.

Currently, the company has 9.95 MTPS iron-making, 10.6 MTPA liquid steel and 7.95 MTPA finished steel. It also has through IPP capacity of 3400 MW (of which it has planned divestment of 1000 MW) and CPP of 1634 MW. These capacities have been significantly scaled up over the last four years, with the steel capacity increasing by 3 times and power capacity by 3.4 times. The Oman subsidiary was a new addition and pellet capacity too grew by 2 times over FY14 to '18.

Significant capacity addition

The company also achieved significant milestone of commissioning of the greenfield state-of-the-art 6 MTPA integrated steel plant at Angul. The plant has India's largest blast furnace having working volume of 4,554 m3 and 1.0 MTPA coke oven, along with 250 tonnes per heat BOF. The company is slowly ramping up its production and we can see its impact materialising through higher revenue growth.

Capacity utilisation improved at all facilities

As of FY18, the steel capacity utilisation stood at ~50%, which is expected to be ramped up. Also, there is significant upside potential in power assets, which were running at ~40% capacity. The pellet capacity was utilised better and has the potential to be utilized 30% higher.

The company's integrated steel plant at Raigarh, Chhattisgarh, continues to be among the most efficient steel plants in the world, with capacity utilisation of over 95%.

Also, the 9 MTPA pellet plant recorded highest production in FY17-18 by producing 6.86 MTPA. Additionally, 1 MTPA rebar and 0.6 MTPA wire rod mills at Patratu have been running at peak capacities during FY2017-18. The Oman subsidiary too was running at 100% utilisation.

Also, the company had finished the capex, which means that with no further capex planned, we would see higher cash flows and a better balance sheet.

The company has received the order from railways for supply of around 1 lakh tonnes of rails through a global tender, which saw participation from seven global rail manufacturers. The deliveries have started from August 2018 which was supposed to happen over a period of a year. However, the company expects to supply the same within the next four months, which would be a commendable achievement. The railway order vindicates the company's technological and supply chain prowess that enables it to compete against seven global manufacturers to win this order.

Power subsidiary – pain in the short term but potential upside over the long term

The company faced major fuel procurement issues after the coal block re-allocation for its Tamnar facility. For Tamnar facility I and III, the company plans to source the same from open market purchases, thereby making its margins vulnerable to changes in the raw material prices. It has PPAs with the Tamil Nadu and Karnataka governments, which will cover 30% of the capacity. PPAs should

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help to lift plant load factor in the future.

Financial performance

For FY17-18, the company reported 23% increase in revenue, while the EBITDA increased by 37%. The total plant capacity was 10.6 MTPA, while power generation capacity was 5034 MW. The pellet plant capacity was at 9 MTPA.

The company reduced its debt in FY17-18 by Rs. 5,000cr from Rs.47,000cr to Rs.42,000cr. Going ahead, it wants to further repay Rs.15,000-Rs.20,000cr in the next 2-3 years.

For Q2FY19, JSPL reported 87% yoy growth in revenues to Rs.6849cr., while its EBITDA was up by 85% to Rs.1452cr. However, we see on a QoQ basis, the margin was down by 300bps due to higher raw materials prices on account of higher price for import of coal. With Indian currency appreciating, we see it to moderate over the next two quarters.

For Q2FY19, for power subsidiary JPL, the numbers were weak, with marginal revenue growth of 4%yoy to Rs.911cr, while the EBITDA declined by 12% yoy, dragging PAT down by 20% yoy.

Valuation and Outlook

The company has seen a turnaround from Q1FY19 and its bottomline has turned positive. Also, the steel sector's outlook is buoyant. The industrial demand, domestic demand from railways and demand from China is expected to remain good. With curbs on production in China, Indian steel industry is expected to benefit. The valuation for the company looks attractive with EV/EBITDA of 10x as of FY18 and 7x on TTM basis. We urge investors to **BUY** this stock with a target price of Rs.210 in 18 months

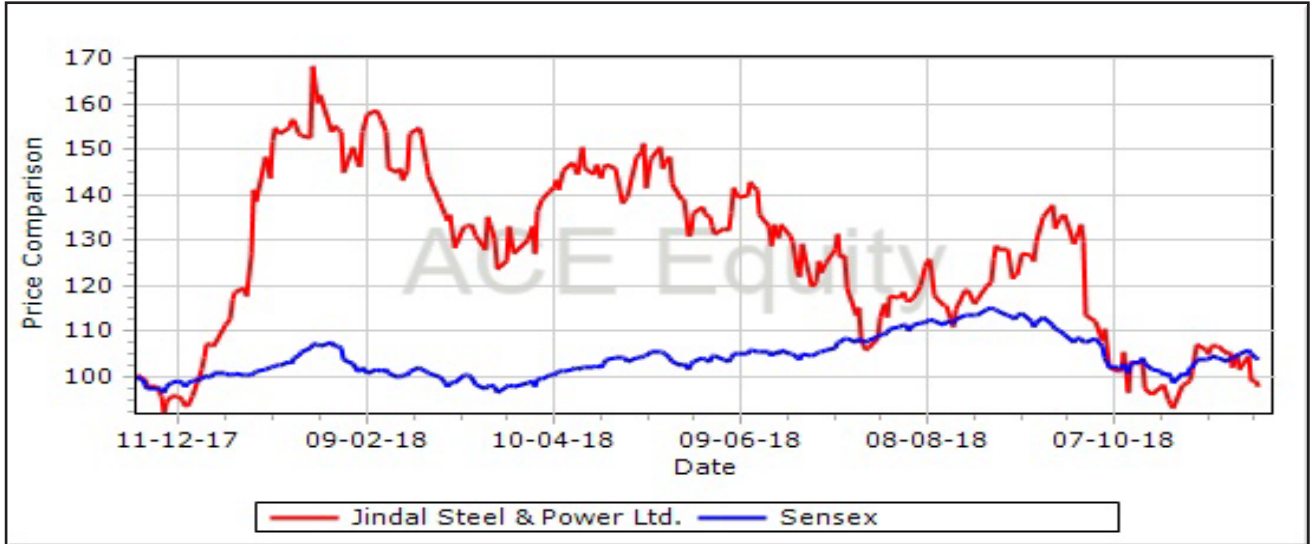
Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	27383.43	21050.51	18371.23	19359.12	19286.31
Total Income	27580.20	21361.76	18780.04	19895.41	19698.05
Total Expenditure	20914.32	16341.33	14934.36	13918.75	13550.15
PBIDT	6665.88	5020.43	3845.68	5976.66	6147.90
PAT	-1624.24	-2540.22	-3086.25	-1454.59	1893.80
Dividend %					160.00
Adj. EPS(Rs)	-14.56	-24.93	-32.42	-13.97	20.88

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201809	201806	Q on Q Var%	201709	Y on Y Var%
Net Sales	9995.45	9602.41	4.09	6151.04	62.50
Total Expenditure	7848.51	7451.61	5.33	4865.89	61.30
PBIDT (Excl OI)	2207.38	2276.55	-3.04	1373.40	60.72
PAT	279.17	109.89	154.04	-499.48	155.89
PBIDTM% (Excl OI)	21.95	23.40	-6.20	22.01	-0.27
PBIDTM%	21.96	23.40	-6.15	22.03	-0.32
PATM%	2.78	1.13	146.02	-8.01	134.71
Adj. EPS(Rs)	3.55	1.87	89.84	0.00	0.00

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