HOLD
TP: Rs 1,010 | ⮝ 6%

JINDAL STEEL & POWER | Metals & Mining | 07 November 2024

Delivery on expansion and further growth visibility key triggers

- **Q2 results beat our weak expectations; EBITDA margin resilience reflect benefit of captive coal and HSM ramp-up**
- **We maintain 22% EBITDA CAGR over FY24-27E, factoring in 60% capacity expansion underway at Angul**
- **Retain HOLD with revised TP of Rs 1,010 (from Rs 975); delivery on expansion and further growth visibility are key triggers**

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Q2 beat: Amid weak expectations, Q2 EBITDA was 2% ahead of Bloomberg consensus and 17% ahead of our forecast. The beat was driven by 6% higher EBITDA in standalone operations and higher contribution of Rs 2.1bn from subsidiaries likely driven by ramp-up of HSM at the JSOL subsidiary.

Q2 weakness: Q2 EBITDA was down 25% QoQ driven by 11% decline in volumes and 20% decline in EBITDA margin. Despite weak prices, EBITDA was relatively resilient for both the standalone operations at Rs 10.4k/t and consolidated at Rs 11.5k/t. While the ramp-up of coal mines has eliminated the use of higher cost e-auction coal, the ramp-up of HSM has largely eliminated sales of semis.

Q3 margin dependent on iron ore: The benefit of higher realisation (Rs 1k-2k/t till date) and lower coking coal costs (US$ 20-25/t in Q3) has been offset significantly by increases in iron ore costs (Rs 1k/t till date). Iron ore outpaced the increase in steel prices on the back of improved optimism on potential stimulus in China.

Angul delivery is the key trigger: JSP needs to deliver on its revised timeline for the expansion project. The slurry pipeline's physical progress improved to 80%, the B1 coal mine is gearing up for Q4 start-up and the B2 coal mine start-up has been shifted to FY26. Ramp-up of HSM beyond 40% now depends on the start-up of BF.

Tweak estimates: Factoring in weakness in Q2 and slower margin recovery in Q3, we lower FY25E EBITDA by 4%. However, with JSP demonstrating a resilient EBITDA margin in Q2 relative to peers on the back of captive coal usage and HSM ramp-up, we raise FY26E EBITDA by 7%. We largely maintain our FY27 forecasts, where we assume a significant ramp-up of the Angul project. We believe the company is primed to deliver 22% EBITDA CAGR over FY24-FY27E.

Maintain HOLD: We raise our TP to Rs 1,010 from Rs 975, while maintaining the target 1Y forward EV/EBITDA at 6x, below our sector target of 6.5x, as we wait for JSP to demonstrate disciplined growth. Retain HOLD given 6% upside. Successful delivery on expansion and further growth visibility are key triggers.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	JSP IN/Rs 952
Market cap	US$ 11.5bn
Free float	39%
3M ADV	US$ 25.0mn
52wk high/low	Rs 1,097/Rs 620
Promoter/FPI/DII	61%/12%/16%

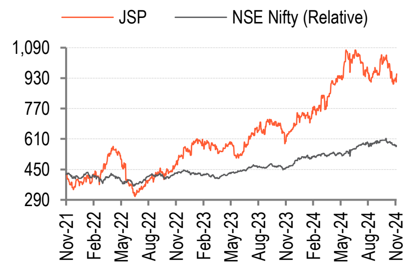
Source: NSE | Price as of 6 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	5,00,268	5,27,378	7,18,016
EBITDA (Rs mn)	1,02,008	1,08,344	1,45,677
Adj. net profit (Rs mn)	59,384	52,311	79,797
Adj. EPS (Rs)	58.2	51.3	78.2
Consensus EPS (Rs)	58.2	57.8	85.9
Adj. ROAE (%)	14.3	11.2	15.0
Adj. P/E (x)	16.4	18.6	12.2
EV/EBITDA (x)	10.4	9.9	7.5
Adj. EPS growth (%)	88.5	(11.9)	52.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Result review

Q2FY25 results in line with consensus

- **Q2 EBITDA in line with consensus and ahead of our estimates:** JSP's Q2FY25 EBITDA at Rs 21.2bn was 2% ahead of Bloomberg consensus and 17% ahead of our forecast. The EBITDA beat was primarily driven by 6% higher standalone EBITDA than our assumptions on 5% higher sales and Rs 2.1bn of EBITDA contribution from subsidiaries, largely driven by Hot Strip Mill (HSM) operations at Angul.

Fig 1 – Q2 comparison

(Rs bn)	Q2FY25	Consensus	Delta (%)	BOBCAPS	Delta (%)
Revenue	112	119	(6)	104	8
EBITDA	21	21	2	18	17
Net income	9	8	6	6	36

Source: Company, Bloomberg, BOBCAPS Research

- **Sequential decline:** Q2 EBITDA was down 25% QoQ, driven by 29% decline in standalone EBITDA to Rs 19.2bn. Other subsidiaries improved their contributions to Rs 2.1bn. Steel operations were impacted by 11% QoQ volume decline as well as 20% QoQ decrease in EBITDA margin to Rs 10.4k/t. Consolidated profitability also declined 15% QoQ to Rs 11.5k/t.

- **Sequential margin increase:** The sequential margin decrease was the result of the decrease in underlying steel realisation (3% QoQ), partially offset by reduction in coking coal costs (down US$ 35/t QoQ) and iron ore costs (Rs 0.5k/t).

- **Sales decline:** JSP attributed the decline in sales to the shutdown at Raigarh plant. Exports remained weak at 0.17mt, contributing only 9% of sales.

- **Hot Strip Mill ramp-up:** HSM utilisation improved to 40% in Q2, helping the company to largely eliminate sales of semis and thereby improve margins. However, the further ramp-up of HSM is now dependent on the availability of additional metallics, which is in turn now linked to the ramp-up of the new blast furnace (BF). Available direct reduced iron (DRI) capacity at Angul is already operating close to 100% utilisation.

- **Captive coal usage:** The captive coal contribution was 1.3mt in Q2, helping to fully eliminate the usage of e-auction coal and minimise the usage of fuel supply agreement (FSA) coal to the committed quantity under tapering linkage.

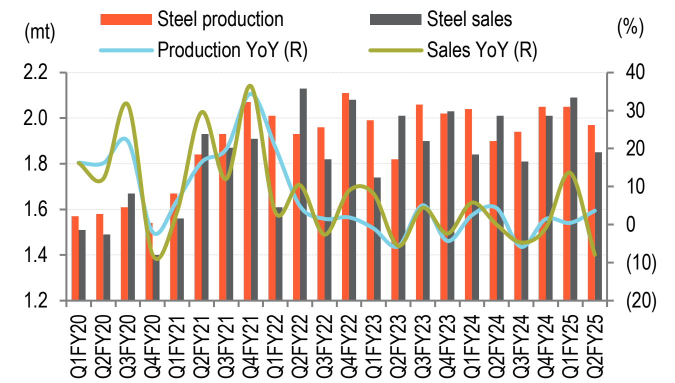
- **Net debt increased:** Net debt increased by Rs 20bn QoQ to Rs 125bn. Net debt to trailing 12M EBITDA at 1.2x remains below the company's target of 1.5x.

Fig 2 – Quarterly performance

(Rs bn)	Q2FY25	Q1FY25	QoQ (%)	Q2FY24	YoY (%)	H1FY25	H1FY24	YoY (%)
Consolidated P&L								
Revenue from operations	112.1	136.2	(17.7)	122.5	(8.5)	248.3	248.4	(0.0)
EBITDA reported	22.0	28.4	(22.5)	22.9	(3.7)	50.4	49.1	2.6
EBITDA adjusted	**21.2**	**28.3**	**(25.0)**	**22.1**	**(4.0)**	**49.6**	**49.2**	**0.8**
EBIT	15.0	21.6	(30.2)	16.8	(10.6)	36.6	37.2	(1.7)
PBT before exceptionals	12.1	18.6	(34.7)	13.8	(12.4)	30.7	31.5	(2.5)
PAT reported	8.6	13.4	(35.7)	13.9	(38.1)	22.0	30.8	(28.7)
PAT adjusted	**8.6**	**13.4**	**(35.7)**	**13.9**	**(38.1)**	**22.0**	**30.8**	**(28.7)**
EPS (Rs)	8.5	13.3	(36.2)	13.8	(38.5)	21.8	30.6	(28.8)
Tax rate (%)	29.1	28.0	-	(0.4)	-	28.4	2.2	-
EBITDA breakdown								
Standalone`	19.2	26.9	(28.9)	22.4	(14.6)	46.1	49.1	(6.1)
Consolidated	**21.2**	**28.3**	**(25.0)**	**22.1**	**(4.0)**	**49.6**	**49.2**	**0.8**
Consolidated EBITDA (Rs/t)	11,481	13,545	(15.2)	11,010	4.3	12,576	12,771	11,481
Standalone								
Production – steel (mt)	1.97	2.05	(3.9)	1.90	3.7	4.0	3.9	2.0
Sales – steel (mt)	1.85	2.09	(11.5)	2.01	(8.0)	3.9	3.9	2.3
Realisation (Rs/t)	62,184	61,449	1.2	60,108	3.5	61,794	63,357	(2.5)
EBITDA (Rs/t)	10,357	12,890	(19.7)	11,164	(7.2)	11,701	12,751	(8.2)

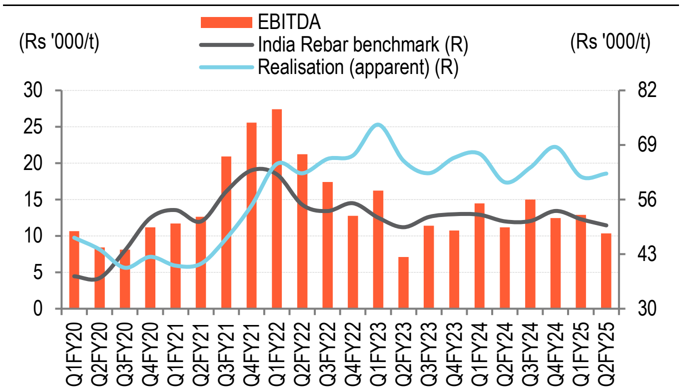
Source: Company, BOBCAPS Research

Fig 3 – Sales decreased due to shutdown at Raigarh plant



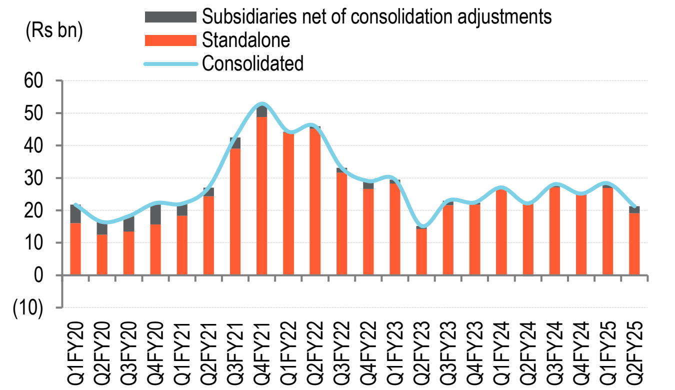
Source: Company, BOBCAPS Research

Fig 4 – EBITDA margin declined with weaker prices



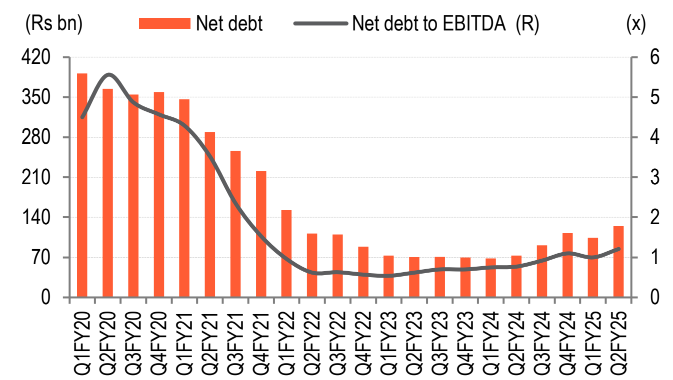
Source: Company, BOBCAPS Research

Fig 5 – Consolidated EBITDA declined on lower sales and margin



Source: Company, BOBCAPS Research

Fig 6 – Net debt continued to rise with Angul expansion; leverage still significantly lower than peers



Source: Company, BOBCAPS Research

FY25 outlook

- **Margin improvement in Q3 to depend on iron ore:** While JSP has raised prices by Rs 1k-2k/t over the Q2 average, and guided for further US$ 20-25/t reduction in coking coal costs, increased iron ore cost remains a concern. Domestic iron ore prices have increased by Rs 1k/t outpacing increase in steel prices on the back of increase in global prices. With the announcement of potential stimulus in China, both steel and iron ore prices had recovered. While steel prices have softened subsequently, iron ore prices maintain their strength compressing steel spreads.
- **Stable volumes:** JSP aims to maintain its quarterly production rate above 2mt. While JSP's agreement with Rashtriya Ispat Nigam (RINL) offers a possibility of getting additional billets, the start-up of the blast furnace at RINL has been delayed as RINL is awaiting funds from the Indian government.

Project updates

Angul expansion timeline maintained: After the announcement of six to nine months of delays across various project milestones in the Q1 results, JSP now maintains its timeline for the project.

Slurry pipeline: Achieved physical progress of 80% and is targeting start-up in Q4FY25.

Coal mines ramping up: The company aims to start the Utkal B1 mine (5.5mt capacity) in Q4FY25 with the receipt of all approvals and has shifted the start-up of the Utkal B2 mine to early FY26. JSP is also working to enhance capacity for both Gare Palma IV/6 and Utkal C to ~5mt.

Angul capex: JSP has spent Rs 205bn on capex for the Angul expansion project out of its budget of Rs 310bn.

Valuation methodology

Forecast changes

Factoring in weaker Q2 results and slower margin recovery in Q3, we lower FY25E EBITDA by 4%. We raise FY26E EBITDA by 7% factoring in higher margin on account of HSM utilisation and captive coal seen during H1. We largely maintain our FY27 forecasts, where we assume a significant ramp-up of the Angul project. We believe the company is primed to deliver 22% EBITDA CAGR over FY24-FY27E through expansion even with our conservative assumptions accounting for buffer against the revised guidance.

Fig 7 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	527	718	804	500	677	**776**	5.5	6.1	3.6
EBITDA	**108**	**146**	**185**	**113**	**136**	**185**	**(4.1)**	**7.2**	**0.1**
Net income	52	80	109	55	70	**106**	(4.3)	13.8	2.3

Source: BOBCAPS Research

Volume assumptions

- **Steel sales:** We continue to assume FY25E/FY26E/FY27E steel sales of 8.0mt/10.5mt/12.6mt. As the RINL plant is awaiting funding from the government to restart the blast furnace (BF), we continue to assume the availability of additional billets from FY26. We remain conservative on the gradual ramp-up of new plants accounting for 45% average utilisation of 3.3mt blast furnaces and 5% utilisation for the 3mt blast furnace capacity in FY26, allowing a buffer for start-up beyond management guidance.

- **Hot strip mill:** We assume 40%/60%/90% utilisation for HSM in FY25/FY26/FY27. JSP will now need to stabilise delivery of HRC across specifications and gradually move up the chain to maximise margins. The company has previously mentioned that it will start with the sale of coils to cold rolling mills/tube manufacturers and to players in construction sectors while working in parallel to get products qualified by white goods and automotive players.

- **Coal mines:** We continue to assume captive coal availability of 9mt/12mt/14mt in FY25/FY26/FY27 as JSP ramped-up operations of Gare Palma IV/6 and Utkal C to the rated capacity at the end of FY24. The company is further targeting the start-up of Utkal B1 in Q4FY25 and B2 over early FY26. The company is also working on enhancing Gare Palma IV/6's production capacity to 5mt (from 4mt) and Utkal C's to 4.78mt (from 3.37mt).

- **Pellets:** We assume external sales of 2-3mt over FY27 only after the ramp-up of pellet plant-II.

- **Slurry pipeline:** We now assume 70%/90% utilisation in FY26/FY27 based on the start-up in Q4FY25.

Margin assumptions

- **Modest improvement:** We continue to assume a modest improvement in EBITDA/t from Rs 13.3k in FY24 to Rs 14.5k/t by FY27, with the implementation of cost-efficiency projects (captive coal production, pellets) and value-enhancing projects (HSM).

Fig 8 – JSP: Key assumptions

Parameter	FY24	FY25E	FY26E	FY27E
Sales (mt)	7.7	8.0	10.5	12.6
India HRC (US$/t)	684	634	620	595
Realisation (Rs'000/t)	60.5	60.6	64.4	60.4
EBITDA/tonne (Rs'000/t)	13.3	13.2	13.7	14.5

Source: Company, BOBCAPS Research | HRC: Hot-rolled coil

JSP – HOLD with a revised TP of Rs 1,010

We raise our TP for JSP to Rs 1,010 (from Rs 975) factoring in higher FY25E earnings and roll forward of valuation. We use FY26 earnings as a valuation base to arrive at Mar’25 fair value and then roll it forward to Sep’25 (from Jun’25) to arrive at our 12-month forward TP.

- Our target multiple of 1Y fwd EV/EBITDA at 6x is above the stock’s five-year average of 4.6x to reflect the resumption of growth but below our sector target multiple of 6.5x for the early recovery phase as we wait for JSP to demonstrate disciplined growth delivery over this investment phase.
- While we use FY26 as a valuation base to give JSP credit for the expansion drive underway, it does not fully capture the full benefit of expansion. Hence, we account for incremental value from the full ramp-up of expansion by valuing incremental EBITDA from expansion in FY27 at the same target multiple and then discounting back to Jun’25.

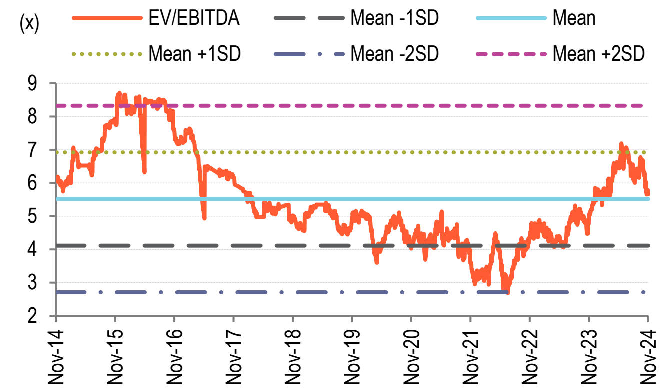
We maintain HOLD rating on JSP as we believe the stock needs to pause for breath till the company shows improved visibility on project delivery and a consequent increase in earnings.

Fig 9 – JSP: Valuation summary

(Rs bn)	Value
FY26E EBITDA	146
Target EV/EBITDA (x)	6
EV	**874**
Incremental value from full ramp-up	215
EV including benefit of full ramp-up as of Mar'25	**1,090**
FY25E Net debt	108
Equity Value Mar’25E	**982**
Fair value per share Mar’25E (Rs)	963
Fair value per share Sep’25E (Rs)	1,010
Target price Jun'25E (Rs) (rounded to nearest Rs 5)	**1,010**

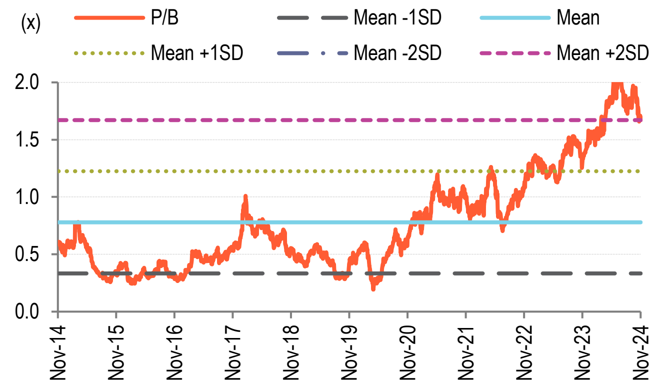
Source: BOBCAPS Research

Fig 10 – JSP 2Y fwd EV/EBITDA



Source: Bloomberg, BOBCAPS Research

Fig 11 – JSP 1Y fwd P/B



Source: Bloomberg, BOBCAPS Research

Key risks

Key upside/downside risks to our estimates are:

- Steel producer valuations are highly sensitive to product and raw material prices. Key downside risks to our estimates are unfavourable changes in global demand-supply balance for steel and its raw materials, leading to lower prices and margins than assumed. Conversely, key upside risks to our estimates are favourable changes in global dynamics, leading to higher prices and margins than assumed.
- JSP is exposed to the risk of delays in implementing its capital investment plan, including expansion, which could slow earnings growth. Conversely, upside risks to our earnings could arise from faster implementation of its capital investment plan than our conservative assumptions.
- JSP needs to have senior management continuity to ensure timely delivery of its current vision. While JSP faced executive management churn in FY24, Sabyasachi Bandopadhyay has taken over as the interim MD and Sunil Aggarwal as the CFO.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
Jindal Steel & Power	JSP IN	11.5	952	1,010	HOLD
JSW Steel	JSTL IN	29.3	1,009	975	HOLD
SAIL	SAIL IN	6.1	124	110	SELL
Tata Steel	TATA IN	22.4	154	175	HOLD

Source: BOBCAPS Research, NSE | Price as of 6 Nov 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**5,27,112**	**5,00,268**	**5,27,378**	**7,18,016**	**8,03,910**
EBITDA	99,349	1,02,008	1,08,344	1,45,677	1,85,176
Depreciation	(26,910)	(28,218)	(29,227)	(33,626)	(38,004)
EBIT	72,439	73,790	79,117	1,12,051	1,47,172
Net interest inc./(exp.)	(16,164)	(14,956)	(16,472)	(17,472)	(16,472)
Other inc./(exp.)	2,274	3,578	4,477	5,250	5,517
Exceptional items	(13,695)	0	0	0	0
EBT	44,855	62,413	67,121	99,829	1,36,217
Income taxes	(12,923)	(2,980)	(14,767)	(19,966)	(27,243)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**31,511**	**59,384**	**52,311**	**79,797**	**1,08,883**
Adjustments	0	0	0	0	0
Adjusted net profit	**31,511**	**59,384**	**52,311**	**79,797**	**1,08,883**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	47,004	46,815	55,106	75,267	81,368
Other current liabilities	54,380	54,025	52,738	71,802	80,391
Provisions	971	734	774	1,053	1,179
Debt funds	1,30,463	1,64,721	1,74,721	1,64,721	1,54,721
Other liabilities	71,410	73,350	73,219	79,387	80,569
Equity capital	1,005	1,002	1,012	1,012	1,012
Reserves & surplus	3,86,061	4,42,158	4,92,115	5,68,322	6,72,305
Shareholders' fund	3,90,191	4,47,507	4,97,517	5,73,789	6,77,862
Total liab. and equities	**6,94,419**	**7,87,152**	**8,54,074**	**9,66,019**	**10,76,091**
Cash and cash eq.	47,168	40,241	67,152	52,545	72,515
Accounts receivables	9,745	16,645	13,004	17,705	19,822
Inventories	58,868	70,774	74,623	1,01,923	1,10,186
Other current assets	38,976	49,822	51,923	70,637	79,070
Investments	0	0	0	0	0
Net fixed assets	4,08,035	4,57,897	5,07,684	5,95,247	6,82,810
CWIP	71,059	88,720	73,720	53,720	33,720
Intangible assets	34,469	32,783	32,783	32,783	32,783
Deferred tax assets, net	0	0	0	0	0
Other assets	26,099	30,270	33,187	41,459	45,186
Total assets	**6,94,419**	**7,87,152**	**8,54,074**	**9,66,019**	**10,76,091**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**1,01,176**	**70,673**	**1,00,126**	**1,17,568**	**1,56,280**
Capital expenditures	(64,691)	(94,054)	(64,013)	(1,01,189)	(1,05,567)
Change in investments	0	0	0	0	0
Other investing cash flows	172	(2,158)	(22)	(4,456)	183
Cash flow from investing	**(64,519)**	**(96,212)**	**(64,035)**	**(1,05,646)**	**(1,05,384)**
Equities issued/Others	(6)	(3)	9	0	0
Debt raised/repaid	(4,553)	34,258	10,000	(10,000)	(10,000)
Interest expenses	(16,164)	(14,956)	(16,472)	(17,472)	(16,472)
Dividends paid	(2,040)	(2,040)	(2,354)	(3,591)	(4,900)
Other financing cash flows	(3,411)	1,352	(363)	4,533	445
Cash flow from financing	**(26,174)**	**18,612**	**(9,180)**	**(26,530)**	**(30,926)**
Chg in cash & cash eq.	**10,483**	**(6,927)**	**26,910**	**(14,607)**	**19,970**
Closing cash & cash eq.	**36,685**	**47,168**	**40,241**	**67,152**	**52,545**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	30.9	58.2	51.3	78.2	106.7
Adjusted EPS	30.9	58.2	51.3	78.2	106.7
Dividend per share	2.0	2.0	2.3	3.5	4.8
Book value per share	379.4	434.4	483.4	558.1	660.1

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.2	2.1	2.0	1.5	1.3
EV/EBITDA	11.5	10.4	9.9	7.5	5.8
Adjusted P/E	30.8	16.4	18.6	12.2	8.9
P/BV	2.5	2.2	2.0	1.7	1.4

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	53.8	95.1	77.9	79.9	79.9
Interest burden (PBT/EBIT)	80.8	84.6	84.8	89.1	92.6
EBIT margin (EBIT/Revenue)	13.7	14.8	15.0	15.6	18.3
Asset turnover (Rev./Avg TA)	72.2	67.5	64.3	78.9	78.7
Leverage (Avg TA/Avg Equity)	2.0	1.8	1.8	1.7	1.6
Adjusted ROAE	8.5	14.3	11.2	15.0	17.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	3.2	(5.1)	5.4	36.1	12.0
EBITDA	(36.0)	2.7	6.2	34.5	27.1
Adjusted EPS	(61.8)	88.5	(11.9)	52.5	36.5
Profitability & Return ratios (%)					
EBITDA margin	18.8	20.4	20.5	20.3	23.0
EBIT margin	13.7	14.8	15.0	15.6	18.3
Adjusted profit margin	6.0	11.9	9.9	11.1	13.5
Adjusted ROAE	8.5	14.3	11.2	15.0	17.5
ROCE	12.7	12.1	11.7	15.0	17.6
Working capital days (days)					
Receivables	7	12	9	9	9
Inventory	41	52	52	52	50
Payables	(40)	(43)	(48)	(48)	(48)
Ratios (x)					
Gross asset turnover	0.7	0.7	0.6	0.8	0.8
Current ratio	1.0	1.1	1.4	1.3	1.4
Net interest coverage ratio	4.5	4.9	4.8	6.4	8.9
Adjusted debt/equity	0.2	0.3	0.2	0.2	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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HOLD – Expected return from -6% to +15%
SELL – Expected return <-6%
Note: Recommendation structure changed with effect from 21 June 2021

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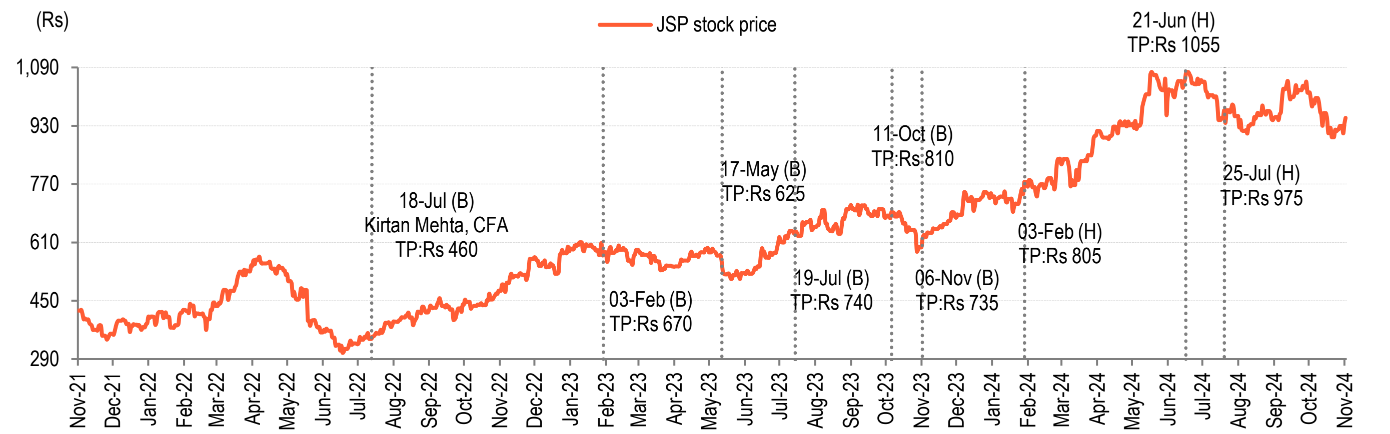
Ratings and Target Price (3-year history): JINDAL STEEL & POWER (JSP IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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