



IDEA2ACT: Jindal Steel and Power (JSPL)

Reco Price

12-months Target Price

BUY @ ₹ 384-393

₹447

Jindal Steel and Power (JSPL) is part of the OP Jindal Group and is headed by the youngest son Naveen Jindal. In India, the company has 8.6mtpa steel capacity, backed by a 9mtpa pellet plant and 3.11mt iron-ore mine, in close proximity to each other and to nearby ports. The company also operates 3,400MW of single-location thermal-power generation capacity in Chhattisgarh, with ~38% capacity tied up under PPAs and having coal linkage from Coal India. JSPL also has international presence, with mining operations in Mozambique (coal), South Africa (coal) and Australia (coking coal). It has recently sold its 2.4mt Oman steel plant to the promoter entity and intends to divest JPL's power assets as well.

Investment Rationale

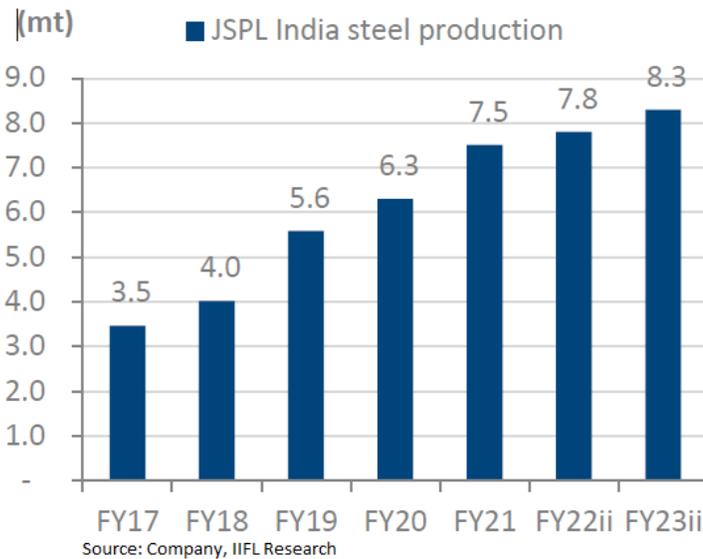
Strong Q1FY22 performance on higher exports and pellet sales: JSPL's Q1FY22 standalone EBITDA at Rs45.2bn (+147% YoY) was much ahead of our estimates, largely driven by increased share of exports and pellet sales at elevated prices. Steel exports during Q1FY22 jumped to 34% of the overall product mix, and largely constituted value-added flat products (including through job works from third parties). Reduction in share of longs & semis also aided overall realisations, which jumped by Rs9,900/t QoQ. External sales of pellets at 0.4mt also increased QoQ (0.29mt in 4QFY21), which also supported the strong increase in realisations, given the elevated pellet prices.

Stable outlook amid rising RM costs: While elevated exports (including export-inventory stuck at ports) will aid NSR, overall, stable steel prices, increasing share of longs, impact of iron-ore prices (although local prices have seen correction in Aug) and higher coking-coal prices (~USD30/t increase) should drive a moderation in domestic steel profitability in Q2. Company has applied for preference in iron-ore availability, under the pre-emption scheme in Odisha; when approved, this will aid availability as well as costs.

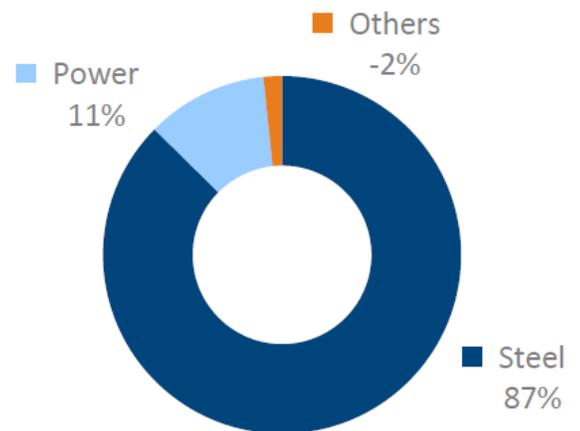
Attractive mix in 1Q drives the NSR & EBITDA beat: JSPL's Q1FY22 standalone EBITDA of Rs45.2bn beat estimates, led entirely by an unforeseen Rs10,000/t jump in NSR which offset the ~Rs7,400/t increase in RM & operating costs. The higher NSR was driven by a better mix (higher exports at 34% of volumes; lower share of semis & longs) and healthy contribution from pellet sales (0.4mt vs 0.3mt QoQ) at elevated prices. RM costs jumped by Rs3,249/t, as the prepaid SMPL iron-ore was exhausted in April and additional iron-ore was acquired at higher prices. Other costs-per-tonne were higher, also due to higher value addition.



Focus on capex continues: Reported net-debt reduction to Rs152.3bn vs Rs221.5bn QoQ was almost entirely due to exclusion of the Rs60bn JPL (categorised as discontinued operation) debt. Higher working-capital needs limited the debt reduction in 1Q. Management expects net debt to fall to Rs80bn post the planned Rs20-25bn capex. Company retains focus on the announced capacity-expansion plan, with 1mtpa addition expected in FY22 and overall 6mtpa by end-FY25.



JSPL - Ebitda split (FY21)



Outlook and valuation

Higher exports of value-added flats and higher pellet-sales at elevated prices drove the NSR/EBITDA beat for Q1FY22. Higher export-based sales will continue, but higher RM costs will keep the Ebitda/t expansion in check. Jump in working capital needs restricted the net debt reduction to ~Rs900m during Q1. Reduction in remaining FY22 should be higher, as WC normalises. Focus continues on capacity expansion of 1mtpa in FY22 and of a total 6mtpa by end-FY25, with FY22 capex pegged at ~Rs25bn.

Considering the unforeseen jump of ₹10,000/t leading to offsetting of ~₹7,500/t increase in RM and operating costs, steel exports increasing by 34% Q1FY22, a sharp 147% (yoy) rise in standalone EBITDA and a 765% (yoy) rise in Profit After Tax, we revise estimates by 19%/7% for FY22ii/23ii and initiate a BUY with a target price of ₹447.

Technically, the stock has given a reversal by closing above the short-term range of ₹383-368. The volume profile shows underlying bullish sentiment as there has been a marked increase in volume. **If the current impulse move accentuates the way it should, we expect JSPL trend higher and test our immediate target price of Rs447 during the next 1-Year.**





Previous Recommendations:

Date	Stock Name	Reco Price	Target Price	P & L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
2-Jul-20	ITC	201	235	17%	Target Achieved (₹225 + Dividend ₹10.15 exdate 6th Jul 2020)
2-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	16%	Target Achieved
13-Aug-20	UPL	480	555	16%	Target Achieved
18-Aug-20	Crompton Consumer	256	299	17%	Target Achieved
28-Aug-20	Sudarshan Chemical	474	557	18%	Target Achieved
14-Sep-20	Apollo Tyres	114.5	138	21%	Target Achieved
1-Oct-20	Manappuram Finance Ltd	155.5	186	20%	Target Achieved
15-Oct-20	Cyient Ltd	370	440	19%	Target Achieved
28-Oct-20	Amara Raja Batteries	770	898	17%	Target Achieved
2-Nov-20	SIS (I) Ltd	363	423	17%	Target Achieved
3-Dec-20	Bharat Electronics	112	139	24%	Target Achieved
16-Dec-20	RBL Bank	233	273	17%	Target Achieved
6-Jan-21	Alembic Pharmaceuticals	1075	1252	-15%	Call closed on 28 th July 2021
15-Jan-21	Hindustan Petroleum Corporation Ltd	229	274	20%	Target Achieved
5-Feb-21	State Bank of India	351.5	429	22%	Target Achieved
1-Mar-21	Cummins India	772	914	18%	Target Achieved
10-Mar-21	HCL Tech	962	1140	19%	Target Achieved
10-Mar-21	Eicher Motors	2635	2940	6%	Active call
7-Apr-21	Cyient Ltd	669	789	18%	Target Achieved
3-May-21	Persistent Systems Ltd	1990	2400	21%	Target Achieved
4-May-21	SBI Life Insurance Company Ltd	945	1144	21%	Target Achieved
17-May-21	HG Infra	325	394	21%	Target Achieved
2-June-21	Gujarat Gas Limited	532	674	27%	Target Achieved
22-Jun-21	Jindal Stainless (Hisar) Ltd	184	228	24%	Target Achieved
6-Jul-21	Tata Motors Limited	341	410	-13%	Active call
26-Jul-21	Gujarat State Petronet Ltd	331	394	6%	Active call

Closing Price as on 3rd Sep 2021 for Active Calls.



Disclaimer:

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%
Accumulate – Absolute return between 0% to +10%
Reduce – Absolute return between 0% to -10%
Sell – Absolute return below -10%

Please refer to <http://www.indiainfoline.com/research/disclaimer> for recommendation parameter, analyst disclaimer and other disclosures.

Investments in securities market are subject to market risks, read all the related documents carefully before investing. There is no assurance or guarantee that the investment objectives shall be achieved. IIFL does not guarantee any assured returns on the investments recommended herein. Past performance of securities/ instruments is not indicative of their future performance. IIFL makes no representation/s or warranty/ies, express s or implied, as to the accuracy, completeness or reliability of any information compiled herein, and hereby disclaims any liability with regard to the same, including, without limitation, any direct, indirect, incidental or consequential loss. You shall verify the veracity of the information on your own before using the information provided in the document. Investors are requested to review the prospectus carefully and obtain expert professional advice. IIFL group, associate and subsidiary companies are engaged in providing various financial services and for the said services (including the service for acquiring and sourcing the units of the fund) may earn fees or remuneration.

IIFL Group | IIFL Securities Ltd., IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane - 400604. CIN: 99999MH1996PLC132983 Tel.:(91-22)2580 6650. Customer Service: 40071000. Stock Broker SEBI Regn: INZ000164132. NSE: 10975 BSE: 179 MCX: 55995 NCDEX: 01249 Depository: INDP1852016. MF Distributor ARN: 47791. PMS SEBI Regn.: INP000002213. Investment Adviser SEBI Regn. INA00000623. Research Analyst SEBI Regn: INH000000248. Loan products are offered by IIFL Finance Ltd. & IIFL Home Finance Ltd. Kindly refer to www.indiainfoline.com for detailed disclaimer and risk factors.

