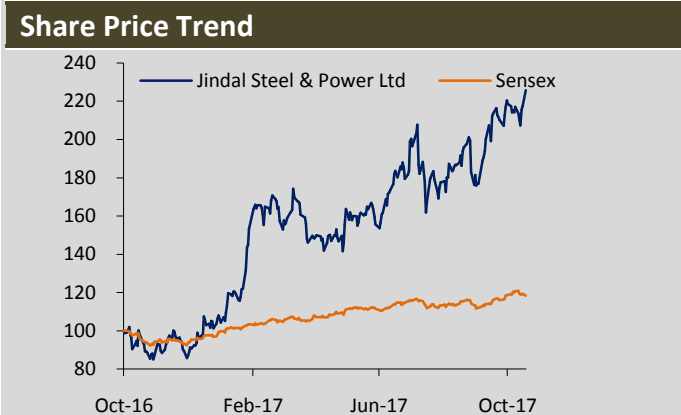


Sector	Iron & Steel
Recommendation	BUY
Upside	24%

Stock Data	
Sensex	33,033
52 Week h/l (₹):	176 / 62
Market cap (₹ Cr) :	15,725
BSE code:	532286
NSE code:	JINDALSTEL
FV (₹):	1
Div yield (%):	--

Shareholding Pattern			
	Mar-17	Jun-17	Sep-17
Promoters	61.9	61.9	61.9
DII+FII	19.6	18.9	21.2
Individuals	18.5	19.2	16.9

Source: www.bseindia.com



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Revival of steel demand in China to support global steel prices

The Chinese government has announced new infrastructure and construction programs as a stimulus for domestic manufacturing. The most significant of these programs is the One Belt One Road (OBOR) project, which is expected to add 150 MT of an incremental steel demand over the next 10 years. Chinese steel capacity has also been reduced by 107 MT over the past 18 months which would help support global steel prices.

Volume ramp-up to boost revenue growth; to aid recovery of profitability

The ramp-up at the Angul facility would help increase JSPL's standalone steel production volumes by ~60% from FY17-19E. Utilization levels for its subsidiary, Jindal Power Ltd (JPL) are also likely to improve to ~50% in FY19E from 31% in FY17. In October, the Kerala State Electricity Board started scheduling power from JPL under a new 150 MW PPA. The improved volumes for JSPL's power and steel businesses would lead to a recovery of profitability at the consolidated level. This is clearly evident from the company's last two quarters numbers.

Steel production at the consolidated level reached 2.58 MT for 1HFY18 up ~10% YoY. Plant Load Factor for Jindal Power increased ~38% in 1HFY18 up from ~30% in 1HFY17, an increase of 25%. As a result, JSPL reported a sharp increase in its consolidated EBITDA for 1HFY18 at ₹2,726 Cr, an increase of 46% YoY.

Sale of oxygen plants to have positive impact on credit rating

In Q4FY16, the credit rating of JSPL was downgraded to 'D' grade after the company missed the interest payments on its debt. However, in October 2017 the company reported that it had paid ~₹700 Cr of overdue interest to its lenders after the sale-and-leaseback of its oxygen plants at Raigarh and Angul. This payment is likely to lead to a rating upgrade, resulting in lower borrowing costs for the company going forward.

Outlook & Valuation

We believe that volume growth supported by firm steel prices is likely to drive consolidated revenue at a CAGR of 23.7% over FY17-19E. This would lead to an expansion in EBITDA margins of ~113 bps over FY17-19E. Based on an SOTP approach, we arrive at a price target of ₹213 (refer to exhibit 5) for the stock.

Financial Summary

Consolidated ₹ cr	FY16	FY17	FY18E	FY19E
Revenue (₹)	18,371	21,051	24,764	32,224
YoY growth (%)	(5.1)	14.6	17.6	30.1
EBITDA Margin (%)	18.7	22.1	22.6	23.3
PAT (₹)	(2,966)	(2,281)	(1,201)	488
EPS (₹)	(32)	(25)	(13)	5
P/E (x)	(5)	(7)	(13)	31
P/B (x)	0.5	0.5	0.5	0.5
EV/EBITDA (x)	17	11.7	9.4	6.6
ROE (%)	(11.1)	(7.3)	(4.1)	1.7
ROCE (%)	(0.7)	0.8	1.8	4.6

Source: Company, IIFL Research

Company Background

Jindal Steel & Power Ltd. (JSPL) is a power and steel conglomerate promoted by Naveen Jindal. The conglomerate is involved in the production of iron and steel products, mining of coal and iron ore and thermal power generation.

- ✧ JSPL operates the largest coal-based sponge iron plant in the world at Raigarh. It has an installed capacity of 3 MTPA.
- ✧ The company has a 0.6 MTPA wire rod mill and a 1 MTPA capacity bar mill at Patratu, Jharkhand; a medium and light structural mill at Raigarh; and a 2.5 MTPA steel melting shop and a plate mill at Angul, Odisha.
- ✧ The company operates a 2 MTPA steel mill in Oman under its subsidiary Jindal Shadeed (100% stake).
- ✧ The company's international coal mining operations are based out of Australia, South Africa and Mozambique.
- ✧ JSPL has a captive power capacity of 1634 MW to cater to its domestic steel production. The company's thermal power generation is operated through its subsidiary (96.43% stake) Jindal Power Ltd and has a capacity of 3400 MW.

Exhibit 1: Consolidated level segment level Break up

	Revenue (in ₹ Cr)			EBITDA (in ₹ Cr)			EBITDA Margin (%)		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Standalone	15,096	18,302	25,088	2,986	4,340	6,142	19.8	23.7	24.5
Power	3,404	4,031	5,619	1,104	1,544	2,197	32.4	38.5	39.1
Oman	3,411	4,760	4,906	663	1,358	1,364	19.4	28.5	27.8
Overseas Mines	757	1,788	1,947	54	285	310	7.1	15.9	15.9

Source: Company, IIFL Research

Exhibit 2: Capacity utilization for JSPL

	FY16	FY17	FY18E	FY19E
Standalone	73%	73%	52%	72%
Power	32%	31%	35%	50%
Oman	73%	62%	80%	85%
Overseas Mines	16%	29%	45%	50%

Source: Company, IIFL Research

Exhibit 3: Peer comparison - Steel

	FY 19E EBITDA (in ₹ Cr)	Enterprise Value (in ₹ Cr)	FY19 EV/EBITDA (x)
JSW Steel	14,634	1,05,799	7.2
Steel Authority of India	3,954	73,603	18.6
Tata Steel	21,002	1,39,516	6.6

Source: Company, IIFL Research

Exhibit 4: Peer comparison - Power Generators

	FY 19E EBITDA (in ₹ Cr)	Enterprise Value (in ₹ Cr)	FY19 EV/EBITDA (x)
JSW Energy	3,894	26,972	6.9
NTPC	28,257	2,56,371	9.1
Tata Power	6,293	70,040	11.1

Source: Company, IIFL Research

Valuation:

We value the standalone steel business of JSPL at 6.0x its FY19E EBITDA which is a ~15% discount to its close peers and we value the other subsidiaries (Jindal Shadeed and mining operations) of JSPL at of 5.4x EV/EBITDA, a 10% discount to the standalone business. We attribute a 6.0x multiple to the power business considering imminent improvement in utilization levels.

Exhibit 5: SOTP for JSPL

	FY19 EBITDA (in ₹ Cr)	Target EV/EBITDA (x)	Enterprise Value (in ₹ Cr)	Net Debt (in ₹ Cr)	Equity Value (in ₹ Cr)	Equity Value (₹ / share)
Standalone	6142	6.0	36,855	25,154	11,701	128
JPL	2197	6.0	13,183	8,136	5,047	55
Others	1674	5.4	9,041	6,282	2,759	30
Total	10497		59,079	39,572	19,506	213

Source: Company, IIFL Research

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%

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