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Company update

Metals

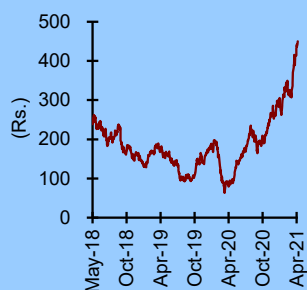
Target price: Rs458

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	60.5	60.5	60.5
Institutional investors	25.5	26.5	27.5
MFs and others	10.4	11.8	13.8
FIs/Insurance	2.8	3.0	2.6
FII	12.3	11.7	11.1
Others	14.0	13.0	12.0

Source: BSE

Price chart



Research Analyst:

Abhijit Mitra

abhijit.mitra@icicisecurities.com
+91 22 6637 7289

INDIA

Jindal Steel & Power

HOLD
Maintained

An alternate deal contour can draw better acceptance **Rs451**

Jindal Steel & Power (JSPL) has announced sale of its 96.42% stake in Jindal Power (JPL) to a promoter entity Worldone (WPL). The equity value (all-cash) for the offer is Rs30.15bn. Objectives are: i) deleveraging the balance sheet, to prepare for next phase of steel capex, i.e. increasing Angul capacity from 6mtpa to 12mtpa; and ii) meet the ESG objective of JSPL being in the top-10 lowest CO₂ emitting steel companies globally. There are concerns that we could gather from our investor interaction on the implied EV of the deal. Redeemable preference bonus shares (RPS) have been issued in the past quarter to JSPL from JPL. Redeemable in 20 years and with a coupon of 5% (as per the management), the PV of the RPS is key to ascertain the EV of the transaction. We believe, less reliance on transaction EV on the RPS may be preferable to investors. **Maintain HOLD.**

- **Contours of the deal.** JSPL would receive an all-cash equity payment of Rs30.15bn for selling its 96.42% stake in JPL. The debt of ~Rs65bn in JPL will also move to WPL. There is an intercompany loan (ICD) of ~Rs43.9bn, which will be converted into an unsecured loan with a 9% coupon (as per the management). There will be a moratorium of five years. Also, post Q3FY21 results, JSPL has been issued RPS by JPL of Rs70bn, redeemable in 20 years and with a coupon of 5%. The enterprise value of the 3,400MW power plant depends on the PV calculation of the RPS.
- **Valuation of RPS.** Rs40bn is cumulative and Rs30bn is non-cumulative. There is a concern on JPL's reported profits given high depreciation and additional debt that may move to JPL balance sheet to finance the transaction. Hence, it is prudent not to assume that the interest from non-cumulative RPS will accrue to JSPL. On the rest of the payments and assuming 20 years maturity, the PV of the instrument at 10% discount rate comes to Rs27.4bn. We reckon, the backend redemption (**maturity of 20 years**) is raising investor concerns. One may argue that, given the 5-year moratorium introduced in the ICD converted to unsecured loan of Rs43.9bn, the corresponding PV comes to Rs28bn only. This leaves the net EV of the transaction at Rs96bn (equity for 100% stake at Rs31bn and net debt at Rs65bn). There may also be a medium term need to undertake Flue Gas Desulphurisation capex of ~Rs20bn-30bn. **Cancellation of the RPS and ICD can draw better investor acceptance.**
- **Ideal EV/MW?** As per the I-Sec power industry team, merchant power in India is on the cusp of revival. Demand is expected to outpace supply and while one may not ascribe any terminal value to the thermal power plants due to onslaught of renewables, sustaining the current PLF/profitability of 3,400MW (~35% PLF) for next 15 years is not a concern. Also, JPL has won the Gare Palma IV/1 coal block in the recent auctions, which we estimate will add ~Rs3bn-4bn to EBITDA in steady state. Hence, even assuming the PV of current cashflows, taking a bump-up for Gare Palma IV/1 and adjusting for a one-time FGD capex of Rs20bn, **JPL's EV accrues to Rs10.5bn.**

Market Cap	Rs459bn/US\$6.2bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	JNSP.BO/JSP IN	Revenue (Rsmn)	369,175	409,688	511,635	445,650
Shares Outstanding (mn)	1,020.0	Net Income (Rsmn)	1	57,497	107,606	54,186
52-week Range (Rs)	450/82	EPS (Rs)	0.0	56.4	105.5	53.1
Free Float (%)	39.5	% ChgYoY	NM	NM	87.2	(49.6)
FII (%)	11.1	P/E (x)	NM	8.0	4.3	8.5
Daily Volume (US\$'000)	46,757	CEPS (Rs)	41.4	100.2	154.2	98.1
Absolute Return 3m (%)	65.4	EV/E (x)	11.0	4.9	2.8	3.9
Absolute Return 12m (%)	447.0	Dividend Yield	-	-	-	-
Sensex Return 3m (%)	3.4	RoCE (%)	4.9	13.0	21.3	11.4
Sensex Return 12m (%)	55.8	RoE (%)	(0.3)	12.6	25.5	11.4

Please refer to important disclosures at the end of this report

- **EV/MW debate (cont'd).** The foregoing amounts to an EV of Rs30mn/MW. Ex-RPS, ex-ICD, the offered EV was within 10% of this value and would have been acceptable in our view. *Our power industry team though is of the opinion, that given the impending improvement of the power scenario in India, perhaps a higher EV/MW is justified.*

Table 1: Gross and net Enterprise value of the transaction

(Rs bn)	Gross Enterprise value calculation	Net EV calculation	Comment
Equity	31	31	
Net Debt	65	65	
RPS*	70	27.4	This assumes no coupon payment for non-cumulative RPS. Assuming the same, PV would have been higher ~ Rs 35bn.
ICD converted to Unsecured Loan	43.9	28	This assumes 5 year moratorium.
Net EV	122.1	95.4	
EV/MW	36	28	
Not built in (EV enhancer)	FGD Capex of ~Rs 20bn	FGD Capex of ~Rs 20bn	

Source: Company data, I-Sec research

* Reliance of EV on RPS which is a 20 year redeemable instrument is not comfortable for investors.

Valuation and risks

We maintain **HOLD** on Jindal Steel & Power with a target price of Rs458/share (**implied P/B of 0.9x on FY23E P/B**). We believe, the power asset transaction can lead to better RoEs and better P/B multiple for JSPL and is a key upside risk to our target price. Key downside risks: i) correction in steel prices, and ii) rapid expansion leading to uncomfortable relevering of balance sheet

Financial summary

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Income (Sales)	369,175	409,688	511,635	445,650
Operating Expenses	290,637	266,887	305,954	318,837
EBITDA	78,538	142,801	205,681	126,813
% margins	21.3	34.9	40.2	28.5
Depreciation	38,672	36,152	36,419	37,497
Gross Interest	41,493	32,013	21,702	12,909
Other Income	262	5,191	941	1,627
Recurring PBT	(1,365)	79,827	148,502	78,033
Add: Extraordinary	(1,094)	(17,816)	-	-
Less: Taxes	1,539	21,472	39,399	22,260
Net Income (Reported)	(1,093)	39,681	107,606	54,186
Recurring Net Income	1	57,497	107,606	54,186

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	170,572	109,852	145,405	138,855
of which cash & cash eqv.	9,143	3,790	31,422	27,114
Total Current Liabilities & Provisions	116,285	130,160	139,603	139,762
Net Current Assets	54,287	(1,777)	26,777	20,081
Investments	1,806	1,806	1,806	1,806
Strategic/Group	1,806	1,806	1,806	1,806
Other Marketable	-	-	-	-
Net Fixed Assets	718,973	607,113	582,661	560,131
Capital Work-in-Progress	31,255	31,255	31,255	31,255
Goodwill	6,098	6,098	6,098	6,098
Total Assets	781,164	613,240	617,342	588,115
Liabilities				
Borrowings	411,332	250,000	145,000	60,000
Deferred Tax Liability	56,226	56,226	56,226	56,226
Minority Interest	(7,764)	(6,907)	(5,410)	(3,823)
Equity Share Capital	1,020	1,020	1,020	1,020
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus	320,351	312,901	420,506	474,693
Net Worth	321,371	313,921	421,526	475,713
Total Liabilities	781,164	613,240	617,342	588,115

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	40,084	89,316	144,580	91,644
Working Capital Changes	15,127	69,243	1,522	2,402
Capital Commitments	(16,646)	(10,500)	(11,967)	(14,967)
Free Cashflow	38,564	148,059	134,135	79,078
Cashflow from Investing Activities	1,892	5,191	941	1,627
Issue of Share Capital	5,129	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(40,676)	(161,332)	(105,000)	(85,000)
Dividend paid	-	-	-	-
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank balance	4,891	(5,353)	27,632	(1,553)

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS(Basic Recurring)	0.0	56.4	105.5	53.1
Diluted Recurring EPS	0.0	56.4	105.5	53.1
Recurring Cash EPS	41.4	100.2	154.2	98.1
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	344	336	451	509
Growth Ratios (%)				
Operating Income	(6.6)	11.0	24.9	(12.9)
EBITDA	(6.6)	81.8	44.0	(38.3)
Recurring Net Income	NM	NM	87.0	(48.9)
Diluted Recurring EPS	NM	NM	87.2	(49.6)
Diluted Recurring CEPS	(27.2)	142.2	53.8	(36.3)
Valuation Ratios (x)				
P/E	NM	7.8	4.2	8.3
P/CEPS	10.6	4.4	2.9	4.5
P/BV	1.28	1.3	1.0	0.9
EV / EBITDA	10.8	4.9	2.7	3.8
EV / Operating Income	2.4	2.1	1.4	1.3
EV / Operating CF	15.7	5.4	4.8	6.0
Operating Ratios (%)				
Raw Material/Sales	13.0	11.7	9.4	10.8
Other Income / PBT	(19.2)	6.5	0.6	2.1
Effective Tax Rate	(62.6)	34.6	26.5	28.5
NWC / Total Assets	5.8	(0.9)	(0.8)	(1.2)
Inventory Turnover (days)	248.0	238.9	234.4	241.0
Receivables (days)	24.0	29.3	19.0	16.0
Payables (days)	99.6	134.1	168.5	160.9
D/E Ratio (x)	1.5	1.0	0.5	0.2
Profitability Ratios (%)				
Rec. Net Income Margins	(0.8)	14.1	21.3	12.5
RoCE	4.9	13.0	21.3	11.4
RoNW	(0.3)	12.6	25.5	11.4
Dividend Payout Ratio	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	21.3	34.9	40.2	28.5

Source: Company data, I-Sec research

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