

# Jindal Steel & Power

BUY

Maintain

Rs1,037

## Set for stellar growth

Reason for report: Q3FY09 results review and earnings revision

### Metals

#### Earnings revision

(%)	FY09E	FY10E
Sales	↑ 17.1	↑ 27.1
EBITDA	↑ 28.5	↑ 44.2
EPS	↑ 32.3	↑ 51.2

#### Shareholding pattern

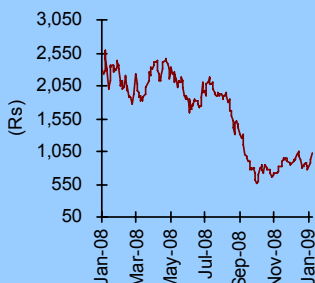
	Jun '08	Sep '08	Dec '08
Promoters	58.6	58.6	58.8
Institutional investors	27.6	26.1	23.9
MFs and UTI	4.9	4.3	5.6
Insurance Cos.	0.02	0.02	0.03
FIs	22.7	21.7	18.1
Others	13.8	15.4	17.3

Source: BSE

Jindal Steel & Power's (JSPL) Q3FY09 results were robust, much above I-Sec and Street estimates. Standalone topline grew 28% YoY to Rs17.8bn. EBITDA rose 29% YoY with margin at 38% (adjusting for extraordinary forex loss of Rs726mn). PAT rose 25% YoY to Rs3.9bn. Earnings from Jindal Power (JPL) continued to surprise with Q3FY09 sales and PAT rising 78% QoQ and 83% QoQ respectively on: i) fully operational 1,000MW capacity and ii) high merchant realisation of Rs8.9/Kwh in Q3FY09. We raise consolidated FY09E, FY10E & FY11E earnings estimate 32%, 51% & 54% respectively on: i) 16.9% & 21% rise in steel sales for JSPL in FY10E and FY11E respectively and ii) 56%, 41% & 13% increase in merchant realisations from JPL's 1,000MW power plant in FY09E, FY10E and FY11E respectively. At Rs1,037/share, the stock trades at FY10E P/E & EV/EBITDA of 3.9x & 3.3x respectively. Our revised sum-of-the-parts (SOTP) fair value estimate is Rs1,388/share (from Rs847/share earlier). Maintain BUY.

- ▶ **JSPL – Raising FY09E, FY10E & FY11E standalone earnings 36%, 79% & 105%** respectively on: i) 16.9% & 21% estimated increase in steel sales for JSPL in FY10E & FY11E, given robust domestic long product demand in the past two months (longs contributing ~70% of JSPL's sales) and ii) reduced capex (Table 1), hence lowered debt on modular back-ended investment process (in Chhattisgarh, Angul and Jharkhand) leading to 7.1%, 8.3% and 14.2% reduction in interest cost for FY09E, FY10E and FY11E respectively. We value JSPL's steel business at Rs396/share (at FY10E EV/EBITDA of 3.9x – 13% discount to the global average).
- ▶ **JPL – Raising FY09E, FY10E & FY11E earnings 29%, 39% & 25%** respectively on 56%, 41% & 13% increase in merchant realisation estimates – JPL clearly enjoys the first-mover advantage in merchant space. With Q3FY09 RoE at 255% (annualised) and Rs13.1bn cashflow generation in 9MFY09, clearly JPL would not require any further equity infusion from JSPL for completing 2,400MW brownfield expansion at Rs120bn (it can complete the project at D/E of 70:30 versus the earlier estimate of 80:20). We raise our FCFE-based fair value to Rs640/share and Rs352/share for 1,000MW and 2,400MW expansions respectively, and upgrade JPL's total revised fair value to Rs992/share (versus the earlier estimate of Rs833/share).
- ▶ **Attractive valuations.** Sum-of-the-parts (SOTP) valuations for JSPL and JPL combined yield Rs1,388/share (FY10E P/E of 3.9x). We maintain BUY with current upside of 34%.

#### Price chart



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Market Cap	Rs159.7bn/US\$3.3bn
Reuters/Bloomberg	JNSP.BO/JSP IN
Shares Outstanding (mn)	154
52-week Range (Rs)	2615/517
Free Float (%)	41.2
FII (%)	18.1
Daily Volume (US\$'000)	18,000
Absolute Return 3m (%)	30.3
Absolute Return 12m (%)	(55.4)
Sensex Return 3m (%)	(3.7)
Sensex Return 12m (%)	(46.6)

Year to March	2008	2009E	2010E	2011E
Revenue (Rs mn)	54,889	106,930	109,257	114,448
Net Income (Rs mn)	12,809	32,731	40,527	40,722
EPS (Rs)	83.2	212.5	263.2	264.4
% Chg YoY	81.4	155.5	23.8	0.5
P/E (x)	12.5	4.9	3.9	3.9
CEPS (Rs)	114.3	266.1	327.2	334.0
EV/E (x)	10.0	4.0	3.3	3.7
Dividend Yield	0.3	0.4	0.4	0.5
RoCE (%)	18.3	36.2	32.6	23.2
RoE (%)	39.9	62.5	46.7	32.2

**Table 1: Revised estimates – JSPL**

(Rs mn)

	FY09E			FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenues	68,961	74,238	7.7	55,709	68,503	23.0	60,380	80,137	32.7
EBITDA	22,889	27,820	21.5	18,745	27,442	46.4	21,167	34,838	64.6
Adjusted PAT	12,216	16,663	36.4	8,527	15,242	78.7	9,606	19,720	105.3
Steel sales (mnte)	1.70	1.50	(11.8)	1.60	1.87	16.9	1.76	2.13	21.0
Capex	38,480	21,893	(43.1)	64,100	29,917	(53.3)	76,873	39,559	(48.5)
JSPL standalone debt	57,942	41,369	(28.6)	106,867	55,765	(47.8)	168,867	83,606	(50.5)
Interest cost	2,705	2,512	(7.1)	3,057	2,803	(8.3)	3,561	3,055	(14.2)

Source: Company data, I-Sec Research

**Table 2: Revised estimates – JPL**

(Rs mn)

	FY09E			FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue	22,338	32,691	46.3	30,222	40,754	34.8	27,813	34,311	23.4
EBITDA	18,352	25,172	37.2	24,265	34,587	42.5	21,856	28,144	28.8
Adjusted PAT	12,392	15,938	28.6	18,148	25,166	38.7	16,693	20,877	25.1
Merchant realisations (Rs/kwh)	4.5	7.0	56.4	4.5	6.3	40.9	4.5	5.1	12.7
Blended realisation (1000MW- Rs/Kwh)	3.9	5.4	38.5	4.1	5.3	30.3	3.7	4.5	19.0

Source: Company data, I-Sec Research

**Table 3: Earnings revision**

(Rs mn)

	FY09E			FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenues	91,299	106,930	17.1	85,931	109,257	27.1	88,193	114,448	29.8
EBITDA	41,241	52,992	28.5	43,010	62,029	44.2	43,023	62,982	46.4
Adjusted PAT	24,744	32,731	32.3	26,803	40,527	51.2	26,429	40,722	54.1

Source: Company data, I-Sec Research

**Table 4: SOTP valuations**

	Value	Method
JSPL	396	FY10E P/E of 4x, FY10E EV/EBITDA of 3.9x
JPL-1,000MW	640	FCFE
JPL-2,400MW	352	FCFE
Total	1,388	
<b>Upside (%)</b>	<b>33.8</b>	

Source: Company data, I-Sec Research

**Table 5: Standalone quarterly results review – JSPL***(Rs mn)*

	Q3FY09	Q2FY09	% Chg QoQ	Q3FY08	% Chg YoY	9MFY09	9MFY08	% Chg YoY
<b>Net sales</b>	<b>17,811</b>	<b>22,161</b>	<b>(19.6)</b>	<b>13,956</b>	<b>27.6</b>	<b>58,925</b>	<b>38,878</b>	<b>51.6</b>
Raw material consumed	6,295	5,933	6.1	4,187	50.3	17,746	9,976	77.9
Stock adjustment	(456)	811	(156.3)	(230)	98.3	(848)	(131)	549.5
Employee expenses	464	463	0.2	301	54.0	1,313	946	38.9
Power, oil & fuel	978	1,197	(18.3)	1,038	(5.8)	3,525	3,212	9.7
Stores & spares cons.	1,693	2,403	(29.5)	1,441	17.5	5,980	4,318	38.5
Other expenses	1,992	2,804	(29.0)	1,896	5.1	7,986	5,068	57.6
Total expenditure	10,966	13,610	(19.4)	8,633	27.0	35,702	23,390	52.6
<b>EBITDA</b>	<b>6,845</b>	<b>8,551</b>	<b>(20.0)</b>	<b>5,324</b>	<b>28.6</b>	<b>23,223</b>	<b>15,488</b>	<b>49.9</b>
Margin (%)	38	39		38		39	40	
Other income	104	150	(30.7)	118	(11.9)	328	243	35.0
<b>PBIDT</b>	<b>6,949</b>	<b>8,700</b>	<b>(20.1)</b>	<b>5,442</b>	<b>27.7</b>	<b>23,551</b>	<b>15,731</b>	<b>49.7</b>
Interest	743	563	32.0	500	48.8	1,781	1,662	7.2
PBDT	6,206	8,138	(23.7)	4,942	25.6	21,770	14,070	54.7
Depreciation	1,109	1,077	3.0	1,188	(6.6)	3,243	3,480	(6.8)
PBT	5,097	7,061	(27.8)	3,754	35.8	18,527	10,590	74.9
Tax	1,120	1,455		564		4,149	1,872	
Deferred tax	-	-		-		-	285	
<b>Profit after tax</b>	<b>3,977</b>	<b>5,606</b>	<b>(29.1)</b>	<b>3,190</b>	<b>24.7</b>	<b>14,378</b>	<b>8,433</b>	<b>70.5</b>
Extraordinary expenses	726	-		-		2,582	(33)	
Reported profit after tax	<b>3,251</b>	<b>5,606</b>	<b>(42.0)</b>	<b>3,190</b>	<b>1.9</b>	<b>11,796</b>	<b>8,466</b>	<b>39.3</b>
<b>EPS-adjusted</b>	<b>25.8</b>	<b>36.4</b>	<b>(29.1)</b>	<b>20.7</b>	<b>24.8</b>	<b>93.4</b>	<b>54.8</b>	<b>70.4</b>
Tax rate (%)	22.0	20.6		15		23.3	17.7	

Source: Company data, I-Sec Research

**Table 6: Standalone quarterly results review – JPL***(Rs mn)*

	Q3FY09	Q2FY09	% Chg QoQ
Revenues	11,607	6,538	77.5
PAT	5,746	3,146	82.7

Source: Company data, I-Sec Research

## Summary financials (JSPL+JPL)

**Table 7: Profit and Loss Statement**
*(Rs mn, year ending March 31)*

	FY08	FY09E	FY10E	FY11E
<b>Operating Income (Sales)</b>	<b>54,889</b>	<b>106,930</b>	<b>109,257</b>	<b>114,448</b>
<b>Operating Expenses</b>	<b>32,788</b>	<b>53,938</b>	<b>47,228</b>	<b>51,466</b>
<b>EBITDA</b>	<b>22,101</b>	<b>52,992</b>	<b>62,029</b>	<b>62,982</b>
<i>% margins</i>	<i>40</i>	<i>50</i>	<i>57</i>	<i>55</i>
Depreciation & Amortisation	4,793	8,251	9,866	10,718
Gross Interest	2,714	6,045	5,630	5,111
Other Income	667	986	1,933	2,125
<b>Recurring PBT</b>	<b>15,262</b>	<b>39,681</b>	<b>48,467</b>	<b>49,279</b>
Add: Extraordinaries	(69)	(2,602)	-	-
Less: Taxes	2,681	7,081	8,059	8,682
- Current tax	2,681	7,081	8,059	8,682
- Deferred tax	-	-	-	-
<b>Net Income (Reported)</b>	<b>12,740</b>	<b>30,129</b>	<b>40,527</b>	<b>40,722</b>
<b>Recurring Net Income</b>	<b>12,809</b>	<b>32,731</b>	<b>40,527</b>	<b>40,722</b>

Source: Company data, I-Sec Research

**Table 8: Balance Sheet**
*(Rs mn, year ending March 31)*

	FY08	FY09E	FY10E	FY11E
<b>Assets</b>				
Total Current Assets	34,551	54,061	76,391	96,303
<i>of which cash &amp; cash eqv.</i>	<i>6,207</i>	<i>11,963</i>	<i>36,163</i>	<i>53,142</i>
Total Current Liabilities & Provisions	19,584	27,504	25,342	27,134
<b>Net Current Assets</b>	<b>14,967</b>	<b>26,557</b>	<b>51,049</b>	<b>69,169</b>
<b>Investments</b>				
<i>of which</i>	<i>2,709</i>	<i>2,682</i>	<i>2,682</i>	<i>2,682</i>
<i>Other Marketable</i>	<i>1,181</i>	<i>1,181</i>	<i>1,181</i>	<i>1,181</i>
<b>Net Fixed Assets</b>	<b>94,637</b>	<b>110,558</b>	<b>137,911</b>	<b>206,180</b>
<i>of which intangibles</i>				
Capital Work-in-Progress	27,798	23,164	55,839	76,227
<b>Total Assets</b>	<b>112,559</b>	<b>139,797</b>	<b>191,642</b>	<b>278,030</b>
<b>Liabilities</b>				
Borrowings	69,971	67,908	80,337	127,210
Deferred Tax Liability	4,947	4,947	4,947	4,947
Equity Share Capital	154	154	154	154
<i>Face Value per share (Rs)</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>
Reserves & Surplus*	37,425	66,669	106,055	145,546
<b>Net Worth</b>	<b>37,579</b>	<b>66,823</b>	<b>106,209</b>	<b>145,700</b>
<b>Total Liabilities</b>	<b>112,559</b>	<b>139,797</b>	<b>191,642</b>	<b>278,030</b>

Source: Company data, I-Sec Research

\*excluding revaluation reserves

**Table 9: Cash Flow Statement**
*(Rs mn, year ending March 31)*

	FY08	FY09E	FY10E	FY11E
<b>Operating Cash flow</b>	<b>16,235</b>	<b>39,885</b>	<b>48,340</b>	<b>49,190</b>
Working Capital Changes	(5,825)	(5,836)	(291)	(1,141)
Capital Commitments	(19,900)	(24,192)	(37,219)	(78,986)
<b>Free Cash Flow</b>	<b>(9,490)</b>	<b>9,857</b>	<b>10,830</b>	<b>(30,937)</b>
<b>Cash flow from Investing Activities</b>	<b>(955)</b>	<b>1,013</b>	<b>1,933</b>	<b>2,125</b>
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	15,601	(2,063)	12,429	46,873
Dividend paid	(726)	(811)	(991)	(1,081)
<b>Extraordinary Items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>5,222</b>	<b>5,755</b>	<b>24,201</b>	<b>16,980</b>

Source: Company data, I-Sec Research

**Table 10: Key Ratios**
*(Year ending March 31)*

	FY08	FY09E	FY10E	FY11E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	83.2	212.5	263.2	264.4
Diluted Recurring EPS	83.2	212.5	263.2	264.4
Recurring Cash EPS	114.3	266.1	327.2	334.0
Dividend per share (DPS)	4.0	4.5	5.5	6.0
Book Value per share (BV)	244.0	433.9	689.7	946.1
<b>Growth Ratios (%)</b>				
Operating Income	56.0	94.8	2.2	4.8
EBITDA	58.0	139.8	17.1	1.5
Recurring Net Income	80.0	159.1	23.9	0.5
Diluted Recurring EPS	81.4	155.5	23.8	0.5
Diluted Recurring CEPS	68.8	132.8	23.0	2.1
<b>Valuation Ratios (x) (at CMP)</b>				
P/E	12.5	4.9	3.9	3.9
P/CEPS	9.1	3.9	3.2	3.1
P/BV	4.2	2.4	1.5	1.1
EV / EBITDA	10.0	4.0	3.3	3.7
EV / Operating Income	4.0	2.0	1.9	2.0
EV / Operating FCF	21.3	6.3	4.2	4.8
<b>Operating Ratio (%)</b>				
Raw Material/Sales	35.3	28.8	21.5	22.2
SG&A/Sales	2.7	2.7	2.7	2.7
Other Income / PBT	4.4	2.5	4.0	4.3
Effective Tax Rate	17.6	19.1	16.6	17.6
NWC / Total Assets	7.8	10.4	7.8	5.8
Inventory Turnover (days)	113.9	100.1	122.1	109.0
Receivables (days)	18.2	10.6	18.7	26.3
Payables (days)	232.9	198.1	159.3	204.2
D/E Ratio (x)	2.0	1.1	0.8	0.9
<b>Return/Profitability Ratio (%)</b>				
Recurring Net Income Margins	22.6	30.2	36.3	34.8
RoCE	18.3	36.2	32.6	23.2
RoNW	39.9	62.5	46.7	32.2
Dividend Payout Ratio	4.8	2.1	2.1	2.3
Dividend Yield	0.3	0.4	0.4	0.5
EBITDA Margins	40.3	49.6	56.8	55.0

Source: Company data, I-Sec Research

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**ANALYST CERTIFICATION**

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