

May 19, 2017

Rating matrix

| | |
|------------------|-------------|
| Rating | : Buy |
| Target | : ₹ 215 |
| Target Period | : 12 months |
| Potential Upside | : 11% |

What's Changed?

| | |
|-----------|-------------------------------|
| Target | Changed from ₹ 200 to ₹ 215 |
| EPS FY18 | Changed from ₹ 17.2 to ₹ 18.8 |
| EPS FY19E | Changed from ₹ 19.5 to ₹ 20.8 |
| Rating | Changed from Hold to Buy |

Quarterly Performance (Consolidated)

| | Q4FY17 | Q4FY16 | YoY (%) | Q3FY17 | QoQ (%) |
|----------|----------|----------|---------|----------|----------|
| Net Rev. | 16,656.2 | 10,608.4 | 57.0 | 14,012.6 | 18.9 |
| EBITDA | 3,164.8 | 1,924.3 | 64.5 | 2,866.9 | 10.4 |
| EBITDA % | 19.0 | 18.1 | 86 bps | 20.5 | -146 bps |
| PAT | 1,008.5 | 300.7 | 235.4 | 730.0 | 38.2 |

Key Financials

| (₹ Crore) | FY16 | FY17 | FY18E | FY19E |
|----------------|--------|--------|--------|--------|
| Net Revenues | 41,879 | 55,605 | 65,523 | 69,709 |
| EBITDA | 6,073 | 12,174 | 13,396 | 14,213 |
| Adj Net Profit | 1,383 | 3,467 | 4,555 | 5,028 |
| Adj EPS (₹) | 5.7 | 14.3 | 18.8 | 20.8 |

Valuation summary

| | FY16 | FY17 | FY18E | FY19E |
|---------------|------|------|-------|-------|
| PE (x) | NA | 13.5 | 10.2 | 9.3 |
| Target PE (x) | NA | 15.0 | 11.4 | 10.4 |
| EV/EBITDA (x) | 14.0 | 7.2 | 6.7 | 6.3 |
| P/BV (x) | 2.2 | 2.1 | 1.8 | 1.5 |
| Adj RoNW (%) | 6.4 | 15.3 | 17.4 | 16.4 |
| Adj RoCE (%) | 4.8 | 13.3 | 14.5 | 14.5 |

*The ratios are calculated post the stock split of 10:1

Stock data

| Particular | Amount |
|-----------------------|---------------|
| Market Capitalisation | ₹ 45923 crore |
| Debt-Cons. (FY16) | ₹ 43334 crore |
| Cash Cons. (FY16) | ₹ 1485 crore |
| EV | ₹ 87772 crore |
| 52 week H/L | ₹ 209 / 128 |
| Equity capital | ₹ 240.3 crore |
| Face value | ₹ 1 |

Price performance (%)

| Return % | 1M | 3M | 6M | 12M |
|------------|-----|-----|------|------|
| JSW Steel | 2.2 | 3.5 | 13.1 | 46.2 |
| SAIL | 0.2 | 0.9 | 22.6 | 43.0 |
| Tata Steel | 8.1 | 3.9 | 26.3 | 47.8 |

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JSW Steel (JSWSTE)

₹ 193

Healthy realisations boost profitability....

- JSW Steel reported a healthy set of Q4FY17 numbers, the better-than-expected performance was primarily driven by healthy realisation
- Sales volume for the quarter came in at 3.96 million tonnes (MT), a tad higher than our estimate of 3.9 MT. Gross consolidated topline for the quarter was at ₹ 17917.22 After adjusting for excise duty, net operating income (consolidated) was at ₹ 16656.2 crore (up 55.7% YoY, 18.9% QoQ) above our estimate of ₹ 16182.0 crore)
- Healthy realisation supported the EBITDA/tonne, which was at ₹ 7586/tonne, up 40.4% YoY (Q4FY16: ₹ 5404/tonne, Q3FY17: ₹ 7717/tonne), higher than our estimate of ₹ 6500/tonne
- Subsequently, consolidated EBITDA was at ₹ 3164.9 crore (up 73.5% YoY, 10.4% QoQ). Consequently, ensuing consolidated PAT came in at ₹ 1008.6 crore

Registers healthy sales volume growth of 23% in FY17...

On the back of completion of capacity enhancements undertaken during H2FY16, JSW Steel registered strong volume growth of ~23% YoY in FY17. The sales volume during the year was at 15.8 MT against 12.6 MT in FY16. JSW Steel for FY18E has guided crude steel production and saleable steel sales guidance of 16.5 MT and 15.5 MT, respectively, implying growth in sales volumes of 5%. We have modelled sales volume on the same lines with 15.5 MT for FY18E, 16 MT for FY19E.

Chalks out capex plan in sync with National Steel Policy 2017...

JSW Steel has approved key new investment projects to expand overall steelmaking capacity, lower operating costs and enrich its product mix, along with few other strategic projects. The company aims to double its capacity at Dolvi from 5 MT to 10 MT and further upgrade, revamp its downstream facilities. The company has outlined a capex of ₹ 26815 crore. Of this, ₹ 19200 crore is towards expansion & upgradation of projects, ₹ 3235 crore towards other cost savings projects, ₹ 1580 crore amounts to Ind-As impact of 1.5 MTPA coke oven at DCPL (₹1050 crore) and mining projects (₹530 crore), while the balance ₹ 2800 crore pertains to capex carried forward from FY17. The company will expend ~₹ 8000 during FY18 while the rest of the capex amounting to ₹ 18815 crore will be rolled over FY19-21.

Access to captive iron ore mines to ensures partial integration

JSW Steel has bagged five iron ore mines in category C mines auctioned by the Karnataka government. The mineable content from these mines is estimated to be around ~93.0 MT. The annual capacity of these mines together is ~4.7 MT. The company is in the process of acquiring forest clearances for mines. The management envisages commercialising two mines (capacity of ~0.7 MT) by the end of CY17. The remaining three mines (~3.9 MT) will be made operational by January 2018.

Healthy realisations drive performance; upgrade to BUY...

JSW Steel reported a healthy Q4FY17 performance primarily driven by healthy realisations. On account of the healthy increase in steel realisations, we have maintained the EBITDA/tonne of ₹ 8250/tonne for FY18E and ₹ 8500/tonne for FY19E. We have modelled sales volume assumption of 15.5 MT for FY18E and 16 MT for FY19E. We value the stock at 6.0x FY19E EV/EBITDA and factor in capex as guided by the management. We factor in the CWIP till FY19E in our valuations at 0.6x book and arrive at a target price of ₹ 215. We have a **BUY** recommendation on the stock.

Variance analysis

| | Q4FY17 | Q4FY17E | Q4FY16 | YoY (%) | Q3FY17 | QoQ (%) | Comments |
|---|----------|----------|----------|---------|----------|----------|---|
| Net Revenues | 16,656.2 | 16,182.0 | 10,608.4 | 57.0 | 14,012.6 | 18.9 | Topline came in marginally higher than our estimates |
| Other Income | 55.8 | 40.0 | 68.1 | -17.9 | 33.3 | 67.7 | Other income came in higher than our estimates |
| Employee Expense | 406.6 | 443.4 | 347.9 | 16.9 | 425.2 | -4.4 | Employee expenses came in marginally lower than our estimates |
| Raw Material Expense | 9,301.4 | 8,641.8 | 5,516.1 | 68.6 | 7,366.1 | 26.3 | Raw material expenses came in higher than our estimates |
| Power & Fuel Expense | 1,388.4 | 1,223.5 | 860.2 | 61.4 | 1,258.6 | 10.3 | Power & Fuel expenses came in higher than our estimates |
| Other operating Expenses | 2,394.9 | 3,184.0 | 1,959.9 | 22.2 | 2,095.8 | 14.3 | Other operating expenses came in lower than our estimates |
| EBITDA | 3,164.8 | 2,689.2 | 1,924.3 | 64.5 | 2,866.9 | 10.4 | EBITDA came in significantly higher than our estimates |
| EBITDA Margin (%) | 19.0 | 16.6 | 18.1 | 86 bps | 20.5 | -146 bps | |
| Depreciation | 877.9 | 968.6 | 828.0 | 6.0 | 914.6 | -4.0 | Depreciation came in lower than our estimates |
| Interest | 947.6 | 896.1 | 855.9 | 10.7 | 920.1 | 3.0 | Interest expense came in lower than our estimates |
| Exceptional Item | - | 0.0 | 1.1 | -100.0 | 0.0 | NA | |
| PBT | 1,395.2 | 864.6 | 307.4 | 353.9 | 1,065.5 | 30.9 | |
| Tax Outgo | 399.2 | 285.3 | 8.6 | 4,536.1 | 351.1 | 13.7 | |
| PAT | 996.1 | 579.3 | 298.8 | 233.4 | 714.4 | 39.4 | |
| Minority Interest, Share of Associate & Extra Ordinary Item | (12.5) | -4.8 | -1.9 | 547.2 | -15.6 | -19.9 | |
| PAT for the Group | 1,008.5 | 584.0 | 300.7 | 235.4 | 730.0 | 38.2 | PAT came in higher than our estimates |
| Key Metrics | | | | | | | |
| Steel Sales (MT) | 4.0 | 3.9 | 3.3 | 20.0 | 3.6 | 10.0 | Steel sales came in marginally higher than our estimates |
| Standalone EBITDA/tonne (₹/ton) | 7586 | 6500 | 5404 | 40.4 | 7717 | -1.7 | Standalone EBITDA/tonne came in higher than our estimates |

Source: Company, ICICIdirect.com Research

Assumptions

| | FY16 | FY17 | Current FY18E | FY19E | Earlier FY18E | FY19E | Comments |
|--------------------------|-------|-------|---------------|-------|---------------|-------|--|
| Total Steel Sales (MT) | 12.1 | 14.8 | 15.5 | 16.0 | 16.0 | 17.0 | Downward revised sales estimate for both years on in accordance with the management guidance |
| EBITDA/tonne (₹/tonne) * | 4,725 | 7,738 | 8,250 | 8,500 | 8,250 | 8,500 | Maintained estimates for both years |

Source: Company, ICICIdirect.com Research, *-Standalone entity

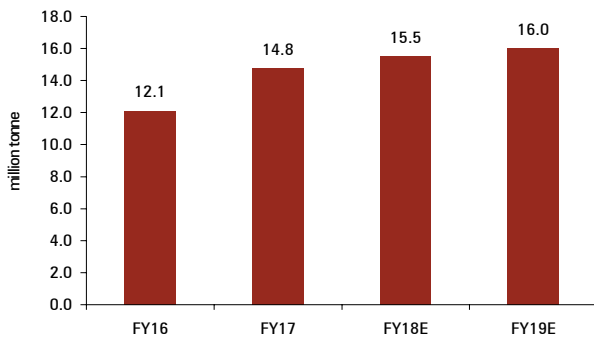
Company Analysis

JSW Steel augmented its steel producing capacity from 14.3 MT to 18.0 MT during the year FY16. The capacity of its Vijayanagar plant in Karnataka was increased to 12.0 MT from 10.0 MT. The plant capacity at Dolvi, Maharashtra was enhanced to 5.0 MT from earlier 3.3 MT while the plant capacity at Salem, Tamil Nadu stood as is at 1 MT.

Registers healthy sales volume growth of 23% in FY17...

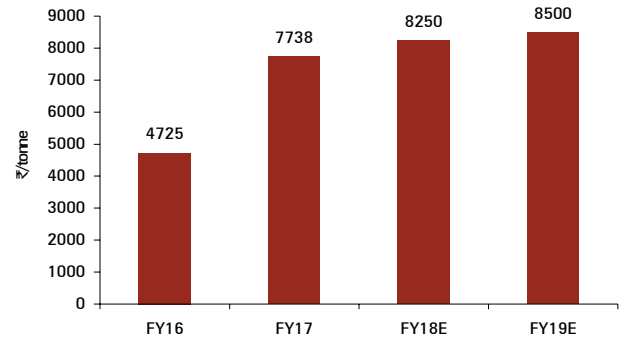
On the back of completion of capacity enhancements undertaken during H2FY16, JSW Steel registered a strong volume growth of ~23% YoY in FY17. The sales volume during the year was at 15.8 MT against 12.6 MT in FY16. JSW Steel for FY18E has guided crude steel production and saleable steel sales guidance of 16.5 MT and 15.5 MT, respectively, implying growth in sales volumes of 5%. We have modelled sales volume on the same lines with 15.5 MT for FY18E, 16 MT for FY19E.

Exhibit 1: Sales volume trend...



Source: Company, ICICIdirect.com Research

Exhibit 2: ..EBITDA/tonne to firm up going forward



Source: Company, ICICIdirect.com Research

Emerges as preferred bidder for five mines...

In the auctions held in September 2016 of category C iron ore mines in Karnataka, JSW Steel has emerged as a preferred bidder in five mines. Estimated resources in these five mines as per tender documents is ~111 million tonnes (MT). Mineable content from these mines is estimated to be ~93.0 MT. The annual capacity of these mines together is ~4.66 MT. The management is in the process of acquiring forest clearance. The management envisages commercialising two of the mines with a capacity of ~0.71 MT by end of CY17 incurring a capex of ~₹ 154 crore. The remaining three mines (~3.95 MT) will be made operational by the end of January 2018 incurring a capex of ~₹ 220crore.

Exhibit 3: : Mines where JSW has emerged as preferred bidder...

| Sr. No | Name of Mine | Est. Resource (MT) |
|--------|------------------------------|--------------------|
| 1 | Ram Rao Paol | 31.5 |
| 2 | Tungabhadra Minerals Pvt Ltd | 33.9 |
| 3 | Tungabhadra Minerals Pvt Ltd | 6.9 |
| 4 | Hothur Traders | 10.0 |
| 5 | V S Lad & Sons | 28.6 |

Source: Source: Department of Mines and Geology (Government of Karnataka), ICICIdirect.com Research

Chalks out capex plan in sync with National Steel Policy 2017...

The Government of India recently approved the National Steel Policy (NSP), 2017 which provides a long term vision to provide thrust to the steel sector. The policy aims to enhance domestic steel consumption, ensure high quality steel production and create a technologically advanced and global competitive steel industry.

JSW Steel has approved key new investment projects to expand over all steelmaking capacity; lower operating costs and enrich its product mix along with few other strategic projects. The company aims to double its capacity at its Dolvi from 5 MT to 10 MT and further upgrade and revamp its downstream facilities. The company has outlined capex of ₹ 26815 crore of which ₹ 19200 crore is towards expansion and upgradation of projects, ₹ 3235 crore towards other cost savings projects, ₹ 1580 crore amounts to Ind-As impact of 1.5 MTPA coke oven at DCPL (₹ 1050 crore) and mining projects (₹ 530 crore), while the balance ₹ 2800 crore pertains to capex carried forward from FY17. The company will expend ~₹ 8000 crore during FY18 while the rest of the capex worth ₹ 18815 crore will be rolled over FY19-21.

The company is setting up projects at a competitive cost while returns from the same are likely to be accretive. Our back of the envelope calculation indicates per tonne cost incurred by JSW Steel for setting up a brownfield facility of 5 MT at Dolvi comes to around US\$460/tonne.

Exhibit 4: Capital expenditure plan over FY18-21

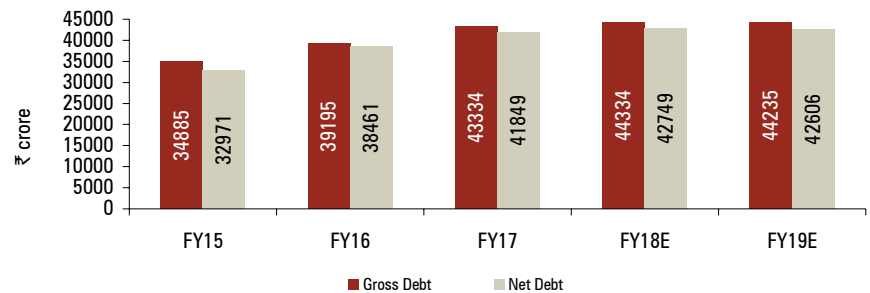
| Key Projects | Project Cost | Timeline | Description |
|--|--------------|-----------|--|
| Dolvi: increasing steel making capacity to 10 MT from current 5 MT | ₹15000 crore | Mar-20 | Total capacity will be increased from 5 MT to 10 MT. The major facilities to be set-up under the expansion project are 4.5 MT Blast furnace with 5 MT Steel Melt Shop, 5.75 MT Sinter plant, 4 MT Pellet plant, and 4 Kilns of 600 TPD LCPs and 5 MT Hot Strip Mill. |
| Vijayanagar: BF-3 revamp and upgradation | ₹1000 crore | 20 Months | BF-3 capacity will be increased from 3 MT to 4.5 MT after the revamp and up-gradation project. Overall Vijayanagar works capacity will remain at 12 MT as existing high cost operations at BF-2 will be shut down post completion of this project. |
| Vijayanagar: CRM-1 complex capacity expansion | ₹2000 crore | Sep-19 | CRM1 complex capacity will be increased from 0.85 MT to 1.80 MT along with two continuous galvanizing line of 0.45 MT each, a new 1.2 MT continuous pickling line for HRPO products, and a new 0.80 MT HR skin pass mill for HR Black & HRSP0 products. |
| Vasind and Tarapur : modernisation-cum-capacity enhancement | ₹1200 crore | Apr-19 | The modernisation cum capacity enhancement project includes increase in cold rolling capacity from 1.16 MT to 2.12 MT by replacing existing CR mills with Batch Tandem CR mills, increase in GI/GL capacity by 0.63 MT & increase in colour coating capacity by 0.08 MT. |

Source: Company, ICICIdirect.com Research

Cash-flows likely to fund capex...

On a consolidated basis, at the end of Q4FY17, the net gearing was at 1.85x (2.11x at the end of Q3FY17) while net debt to EBITDA was at 3.41x (4.05x at the end of Q3FY17). On a standalone basis, at the end of Q3FY17, net gearing was at 1.53x (1.72x at the end of Q3FY17) while net debt to EBITDA was at 3.20x (3.75x at the end of Q3FY17). Despite improving cash flows, we do not expect any debt repayment in the medium as cash flows generated would largely be deployed towards the ongoing capex.

Exhibit 3: Gross debt & net debt trend



Source: Company, ICICIdirect.com Research

Performance of subsidiaries

JSW Steel Coated Products

During the quarter, JSW Steel Coated Products registered production (galvanised/galvalume products) volume of 0.43 MT and sales volume of 0.44 MT. The total income from operations and operating EBITDA for the quarter stood at ₹ 2732 crore and ₹ 161 crore, respectively. The net profit after tax was at ₹ 69 crore.

US plate and pipe mill

The US based pipe and plate mill facility produced 47015 net tonnes of plates and 12803 net tonnes of pipes, reporting capacity utilisation of 19% and 9%, respectively, in Q4FY17. Sales volumes for the quarter were at 34793 net tonnes of plates and 13047 net tonnes of pipes. It reported an EBITDA of US\$ 1.31 million for the quarter.

Key takeaway from conference call

- The current quarter was marked by headwinds of weak steel demand in the domestic market amid poor liquidity post demonetisation as well as surge in raw material prices
- In this backdrop, the company strategically enhanced export sales to offset domestic slowdown, with continued focus on enriching the product mix.
- Indian steel demand is expected to grow by ~4 MT i.e. ~5% in FY18. This will be driven by budgetary allocation of ₹ 4 lakh crore for infrastructure development with thrust on affordable housing, water and gas pipelines, renewable energy and road sector, and recovery in rural demand on the back normal monsoon expectations
- The National Steel Policy 2017 charts out a roadmap to enhance per capita steel consumption to 160 kg by FY31 (from 61 kg in 2015)
- Overall sales during the quarter grew 19% QoQ, 20% YoY; strategically focused on exports due to weak domestic demand as well as sales of value added & special products
- Overall sales to the automotive sector grew 11% YoY in FY17. The company developed more than 19 new products/grades during the year
- The company aims to increase the penetration in the appliance sector with strategic focus on Galvalume by replacing GI products. The overall sales to the appliance sector increased 128% YoY in FY17
- Sales to the solar sector also gained traction in FY17. The overall sales of coated products to the sector grew 86% YoY. While the Galvalume sales increased 126%.
- The consolidated net debt as on March 31, 2017 was at ₹ 41549 crore against ₹ 44265 crore a year ago. Net debt to equity ratio was at 1.85x (FY16: 2.11x) while net debt to EBITDA was at 3.41x (FY16: 4.05x). Cash and cash equivalents were at ₹ 1785 crore as on March 31, 2017
- The management guided a crude steel production and saleable steel sales volume of 16.5 MT (up 4.4% YoY) and 15.5 MT (up 4.9% YoY), respectively, for FY18
- The management guided a capex of ~₹ 8000 crore for FY18. Further, the company has chalked out an capex outlay of ~₹ 18815 crore during FY19-21 towards capacity expansion and upgradation and revamping of current facilities
- The management indicated it did not want to breach the current net debt to equity and net debt to EBITDA ratios, going forward, factoring in expansion plans. The management is targeting a 15 bps reduction in interest cost in FY18
- The company entered into conversion agreement for use of its facilities with Uttam Galva for value added products in May 2016
- The management indicated all five mines are with the Forest Ministry for clearance. Out of the five, two mines are at an advanced stage. The management is hopeful of clearance by end of CY17. The clearance for other three mines is expected by January 2018

Valuation

JSW Steel reported a healthy performance for Q4FY17 primarily driven by healthy realisations. On account of the healthy increase in steel realisations we have maintained EBITDA/tonne of ₹ 8250/tonne for FY18E and ₹ 8500/tonne for FY19E. We have modelled sales volume assumption of 15.5 MT for FY18E and 16 MT for FY19E. We have valued the stock at 6.0x FY19E EV/EBITDA and factored in capex as guided by the management and factored in the CWIP till FY19E in our valuations at 0.6x book and arrived at a target price of ₹ 215. We have a **BUY** recommendation on the stock.

Exhibit 4: Target price calculation

| Particular | Unit | Value |
|-----------------------|---------|-------|
| EBITDA | ₹ crore | 14213 |
| EV/EBITDA Multiple | x | 6 |
| Enterprise Value (EV) | ₹ crore | 85279 |
| Gross Debt | ₹ crore | 44235 |
| Cash & Cash Eq | ₹ crore | 1929 |
| Net Debt | ₹ crore | 42306 |
| FY19E CWIP (@0.6x) | ₹ crore | 8798 |
| Implied Market Cap | ₹ crore | 51771 |
| No of Shares | crore | 240.3 |
| Target Price | ₹ | 215 |

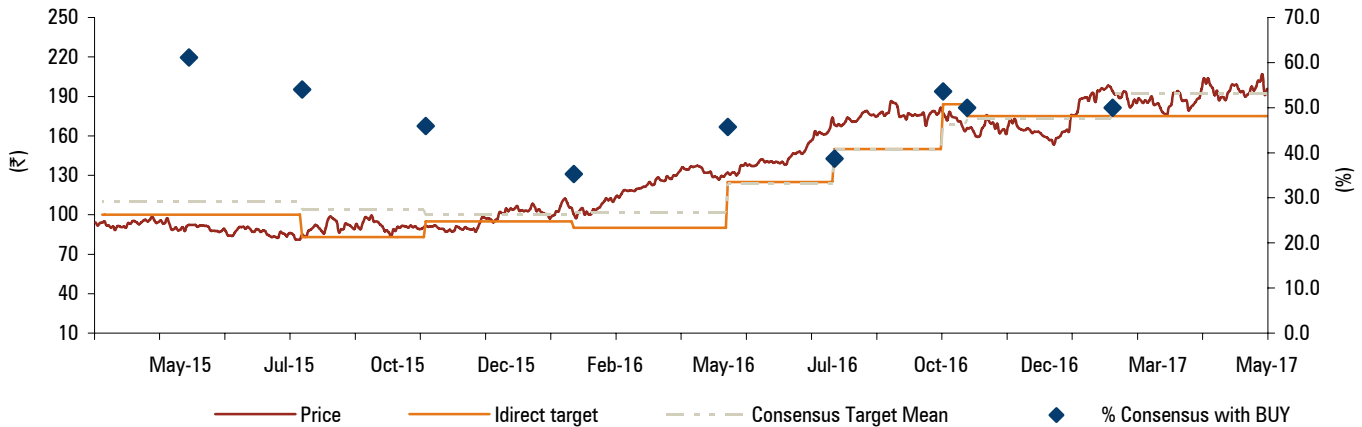
Source: Company, ICICIdirect.com Research

Exhibit 5: Valuation Matrix

| | Sales (₹ Crore) | Growth (% YoY) | EPS (₹) | Growth (% YoY) | PE | (x) | EV/EBIDTA (x) | P/ BV (x) | RoNW (%) | RoCE (%) |
|-------|--------------------|-------------------|---------|-------------------|----|------|------------------|--------------|-------------|----------|
| FY15 | 52971.5 | 3.4 | 76.3 | -14.8 | | 2.5 | 8.5 | 0.2 | 8.0 | 10.3 |
| FY16 | 41878.9 | -20.9 | 5.7 | PL | | NM | 14.0 | 2.2 | 6.4 | 4.8 |
| FY17 | 55604.6 | 32.8 | 14.3 | 150.6 | | 13.5 | 7.2 | 2.1 | 15.3 | 13.3 |
| FY18E | 65522.8 | 17.8 | 18.8 | 31.4 | | 10.2 | 6.7 | 1.8 | 17.4 | 14.5 |
| FY19E | 69709.5 | 6.4 | 20.8 | 10.4 | | 9.3 | 6.3 | 1.5 | 16.4 | 14.5 |

Source: Company, ICICIdirect.com Research

Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

| Date | Event |
|--------|--|
| Sep-16 | As per media sources, domestic steel players raise steel product prices by ₹2500/tonne. Consequently, hot rolled steel prices were at ₹ 39,000/tonne while cold rolled steel prices were at ₹ 42000/tonne with effect from September 1 |
| Oct-16 | The board approves the fund raising plans up to ₹ 2000 crore through issuance of non convertible debentures (NCDs). |
| Nov-16 | JSW Steel indicates that the US Supreme Court has turned down a petition filed by JSW Steel's US based subsidiary in an anti-trust case |
| Dec-16 | As per media source, JSW Steel was planning to restart coking coal mining operations in US by March 2017 following the sharp increase in prices. The company owns nine coking coal mines with a cumulative resources of 123 million tonne (MT) |
| Feb-17 | Moody's Investor Service upgrades JSW Steel's rating outlook to Stable from Negative earlier, the credit rating agency affirmed the company's corporate family rating (CFR) and senior unsecured rating at Ba3. |
| Feb-17 | As per media sources, JSW Steel, along with three consortium partners, submits its final bid for Italy's loss making 10 million tonnes (MT) steel plant, Ilva. The deadline as of now for submitting bids is March 4, 2017, which is when the Italian government is expected to take a decision. We await further details on the same |
| Apr-17 | JSW Steel initiates plans to restructure and consolidate its global operations and holding structure, including operations in the US and Chile. In line with the current market dynamics, the company has implemented a reorganisation plan, which broadly entails : a. A capital reduction at Netherlands company level; b. Transfer of certain assets and liabilities to another wholly-owned subsidiary company, Peruana Holding LLC in US ; and c. liquidation of JSW Steel (US) Inc. (US holding company) |
| Apr-17 | JSW Steel raises \$500 million (~₹ 3,234 crore) through an issue of fixed rated senior unsecured notes. The notes will be listed on the Singapore Exchange Securities Trading |
| May-17 | As per media sources, JSW Steel is likely to set up a 10 million tonne (MT) steel plant in Odisha on the land acquired for the Posco steel project. The company is likely to invest ₹ 50000 crore on the steel plant and 900 MW power plant |
| May-17 | JSW Steel reports production numbers for April 2017. The crude steel production during the month came in at 12.9 lakh tonne (LT) up 7% YoY. The production of flat rolled products stood at 9.32 LT up 5%YoY, while the production of Long (rolled products) increased 12% YoY to 2.96 LT. |

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

| Rank | Name | Latest Filing Date | % O/S | Position (m) | Change (m) |
|------|--|--------------------|-------|--------------|------------|
| 1 | Jindal Organisation | 31-Mar-17 | 22.7 | 549.6 | -5.7 |
| 2 | JFE Steel Corporation | 31-Dec-16 | 15.0 | 362.6 | 0.0 |
| 3 | Vividh Consultancy & Advisory Services Pvt. Ltd. | 31-Mar-17 | 5.8 | 139.9 | 0.0 |
| 4 | Sahyog Tradecorp Pvt. Ltd. | 31-Mar-17 | 4.5 | 109.9 | 0.2 |
| 5 | Danta Enterprises Pvt. Ltd. | 31-Mar-17 | 2.5 | 60.4 | 0.0 |
| 6 | Virtuous Tradecorp Pvt. Ltd. | 31-Mar-17 | 2.5 | 60.4 | 0.0 |
| 7 | Gagandeep Credit Capital Pvt. Ltd. | 31-Mar-17 | 1.9 | 46.0 | 0.0 |
| 8 | M. M. Warburg Bank (Schweiz) AG | 31-Mar-17 | 1.7 | 41.7 | -67.1 |
| 9 | Dimensional Fund Advisors, L.P. | 28-Feb-17 | 1.7 | 41.2 | -0.2 |
| 10 | The Vanguard Group, Inc. | 31-Mar-17 | 1.5 | 36.8 | -0.2 |

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

| in (%) | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 |
|-----------|--------|--------|--------|--------|--------|
| Promoters | 41.5 | 41.5 | 41.5 | 41.6 | 41.6 |
| FII | 15.0 | 20.1 | 20.6 | 20.3 | 20.0 |
| DII | 22.2 | 17.0 | 16.4 | 16.7 | 17.4 |
| Others | 21.3 | 21.4 | 21.5 | 21.4 | 21.0 |

Recent Activity

| Buys | | | Sells | | |
|--|-----------|-----------|---------------------------------|-----------|-----------|
| Investor Name | Value (M) | Shares(M) | Investor Name | Value (M) | Shares(M) |
| Norges Bank Investment Management (NBIM) | 31.2 | 13.0 | M. M. Warburg Bank (Schweiz) AG | -194.7 | -67.1 |
| Nowal (Vinod) | 1.7 | 0.5 | Jindal Organisation | -16.7 | -5.7 |
| Acharya (Jayant) | 1.5 | 0.5 | HDFC Asset Management Co., Ltd. | -12.0 | -4.2 |
| Northern Trust Global Investments | 0.9 | 0.4 | Lyxor Asset Management | -9.3 | -3.2 |
| AQR Capital Management, LLC | 0.9 | 0.4 | Beaufield Holdings, Ltd. | -8.2 | -2.8 |

Source: Reuters, ICICIdirect.com Research

Financial summary (Cons.)

| Profit and loss statement (₹ crore) | | | | |
|-------------------------------------|----------|----------|----------|----------|
| (Year-end March) | FY16 | FY17 | FY18E | FY19E |
| Total operating Income | 41,878.9 | 55,604.6 | 65,522.8 | 69,709.5 |
| Growth (%) | -20.9 | 32.8 | 17.8 | 6.4 |
| Raw Material Expenses | 22,750.6 | 28,262.7 | 36,475.6 | 38,938.3 |
| Employee Expenses | 1,568.0 | 1,699.6 | 2,321.9 | 2,749.8 |
| Power and Fuel Costs | 3,665.9 | 4,882.8 | 4,731.6 | 4,989.2 |
| Mfg and Other expenses | 7,821.3 | 8,585.3 | 8,598.2 | 8,819.0 |
| Total Operating Expenditure | 35,805.9 | 43,430.4 | 52,127.2 | 55,496.3 |
| EBITDA | 6,073.0 | 12,174.2 | 13,395.6 | 14,213.1 |
| Growth (%) | -35.4 | 100.5 | 10.0 | 6.1 |
| Depreciation | 3,187.9 | 3,429.9 | 3,499.6 | 3,737.4 |
| Interest | 3,302.7 | 3,768.1 | 3,341.2 | 3,321.3 |
| Other Income | 168.2 | 152.1 | 220.0 | 320.0 |
| PBT | -249.4 | 5,128.4 | 6,774.9 | 7,474.4 |
| Exceptional Item | -2,125.4 | 0.0 | 0.0 | 0.0 |
| Total Tax | -1,524.1 | 1,674.3 | 2,235.7 | 2,466.6 |
| Reported PAT Before MI | -850.8 | 3,454.1 | 4,539.1 | 5,007.8 |
| Profit/(loss) - JV/MI/Associate | 108.8 | 13.2 | 15.8 | 19.8 |
| Reported PAT After MI | -741.9 | 3,467.2 | 4,555.0 | 5,027.6 |
| Growth (%) | PL | NA | 31.4 | 10.4 |
| Adj PAT after MI | 1,383.5 | 3,467.2 | 4,555.0 | 5,027.6 |
| Adj 'EPS (₹) | 5.7 | 14.3 | 18.8 | 20.8 |

Source: Company, ICICIdirect.com Research

| Balance sheet (₹ crore) | | | | |
|----------------------------|----------|----------|----------|----------|
| (Year-end March) | FY16 | FY17 | FY18E | FY19E |
| Liabilities | | | | |
| Share Capital | 1,067.2 | 301.3 | 301.3 | 301.3 |
| Reserve and Surplus | 20,576.7 | 22,346.3 | 25,895.5 | 30,366.4 |
| Total Shareholders funds | 21,643.9 | 22,647.6 | 26,196.8 | 30,667.7 |
| Total Debt | 39,195.0 | 43,334.0 | 44,334.0 | 44,235.2 |
| Deferred Tax Liability | 1,420.2 | 3,073.6 | 3,073.6 | 3,073.6 |
| Minority Interest / Others | 794.4 | 392.6 | 442.6 | 492.6 |
| Total Liabilities | 63,053.5 | 69,447.7 | 74,046.9 | 78,469.0 |
| Assets | | | | |
| Gross Block | 82,944.3 | 89,135.2 | 92,035.2 | 94,835.2 |
| Less: Acc Depreciation | 27,846.9 | 31,276.8 | 34,776.4 | 38,513.8 |
| Net Block | 55,097.4 | 57,858.4 | 57,258.8 | 56,321.4 |
| Capital WIP | 4,704.7 | 4,363.1 | 9,463.1 | 14,663.1 |
| Total Fixed Assets | 59,802.1 | 62,221.5 | 66,721.9 | 70,984.5 |
| Investments | 618.4 | 1,367.1 | 1,467.1 | 1,567.1 |
| Inventory | 8,403.4 | 11,395.0 | 14,990.0 | 16,002.0 |
| Debtors | 2,801.6 | 4,149.4 | 5,385.4 | 5,729.5 |
| Loans and Advances | 7,904.7 | 2,534.7 | 2,459.7 | 2,559.7 |
| Other Current Assets | 799.0 | 3,931.8 | 4,031.8 | 4,081.8 |
| Cash | 734.0 | 1,485.1 | 1,584.7 | 1,629.1 |
| Total Current Assets | 20,642.7 | 23,496.0 | 28,451.6 | 30,002.2 |
| Current Liabilities | 18,963.2 | 18,380.1 | 23,336.9 | 24,828.0 |
| Provisions | 278.0 | 212.8 | 212.8 | 212.8 |
| Total Current Liabilities | 19,241.1 | 18,592.9 | 23,549.7 | 25,040.8 |
| Net Current Assets | 1,401.5 | 4,903.1 | 4,901.9 | 4,961.4 |
| Others Assets | 1,231.4 | 956.1 | 956.1 | 956.1 |
| Application of Funds | 63,053.5 | 69,447.7 | 74,046.9 | 78,469.0 |

Source: Company, ICICIdirect.com Research

| Cash flow statement (₹ crore) | | | | |
|-------------------------------|----------|----------|----------|----------|
| (Year-end March) | FY16 | FY17 | FY18E | FY19E |
| Profit after Tax | -741.9 | 3,467.2 | 4,555.0 | 5,027.6 |
| Add: Depreciation | 3,187.9 | 3,429.9 | 3,499.6 | 3,737.4 |
| (Inc)/dec in Current Asset | 2,791.2 | -2,102.2 | -4,856.0 | -1,506.2 |
| Inc/(dec) in CL&Provisions | -4,805.7 | -648.2 | 4,956.8 | 1,491.1 |
| Others | -1,744.1 | 1,843.9 | 0.0 | 0.0 |
| CF from operating activities | -1,312.7 | 5,990.5 | 8,155.3 | 8,750.0 |
| (Inc)/dec in Investments | -19.2 | -748.7 | -100.0 | -100.0 |
| (Inc)/dec in Fixed Assets | -4,133.9 | -5,849.2 | -8,000.0 | -8,000.0 |
| Others | 735.2 | -64.5 | 50.0 | 50.0 |
| CF from investing activities | -3,417.8 | -6,662.4 | -8,050.0 | -8,050.0 |
| Issue/(Buy back) of Equity | 0.0 | -765.9 | 0.0 | 0.0 |
| Inc/(dec) in loan funds | 4,310.4 | 4,139.0 | 1,000.0 | -98.8 |
| Dividend paid & dividend tax | -240.0 | -451.0 | -451.0 | -556.7 |
| Inc/(dec) in Sec. premium | -428.2 | -1,246.7 | -554.8 | 0.0 |
| Others | -90.9 | -252.5 | 0.0 | 0.0 |
| CF from financing activities | 3,551.3 | 1,423.0 | -5.8 | -655.5 |
| Net Cash flow | -1,179.3 | 751.1 | 99.6 | 44.4 |
| Opening Cash | 1,913.2 | 734.0 | 1,485.1 | 1,584.7 |
| Closing Cash | 734.0 | 1,485.1 | 1,584.7 | 1,629.1 |

Source: Company, ICICIdirect.com Research

| Key ratios | | | | |
|------------------------------|------|------|-------|-------|
| (Year-end March) | FY16 | FY17 | FY18E | FY19E |
| Per share data (₹) | | | | |
| Adj EPS | 5.7 | 14.3 | 18.8 | 20.8 |
| Cash EPS | 10.1 | 28.5 | 33.3 | 36.3 |
| BV | 89.5 | 93.7 | 108.4 | 126.9 |
| DPS | 0.8 | 1.2 | 1.2 | 1.5 |
| Cash Per Share | 3.0 | 6.1 | 6.6 | 6.7 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 14.5 | 21.9 | 20.4 | 20.4 |
| PBT / Total Operating income | -0.6 | 9.2 | 10.3 | 10.7 |
| Adj PAT Margin | 3.3 | 6.2 | 7.0 | 7.2 |
| Inventory days | 135 | 147 | 150 | 150 |
| Debtor days | 24 | 27 | 30 | 30 |
| Creditor days | 165 | 121 | 130 | 130 |
| Return Ratios (%) | | | | |
| Adj RoE | 6.4 | 15.3 | 17.4 | 16.4 |
| Adj RoCE | 4.8 | 13.3 | 14.5 | 14.5 |
| RoIC | 4.8 | 13.6 | 14.4 | 14.3 |
| Valuation Ratios (x) | | | | |
| P/E | 33.7 | 13.5 | 10.2 | 9.3 |
| EV / EBITDA | 14.0 | 7.2 | 6.7 | 6.3 |
| EV / Net Sales | 2.0 | 1.6 | 1.4 | 1.3 |
| Market Cap / Sales | 1.1 | 0.8 | 0.7 | 0.7 |
| Price to Book Value | 2.2 | 2.1 | 1.8 | 1.5 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 6.5 | 3.6 | 3.3 | 3.1 |
| Debt / Equity | 1.8 | 1.9 | 1.7 | 1.4 |
| Current Ratio | 1.1 | 1.3 | 1.2 | 1.2 |
| Quick Ratio | 0.6 | 0.7 | 0.6 | 0.6 |

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Metals & Mining)

| Company | CMP | | | M Cap (₹ Cr) | EPS (₹) | | | P/E (x) | | | EV/EBITDA (x) | | | ROCE(%) | | | ROE(%) | | |
|----------------|-----|--------|--------|-----------------|---------|-------|-------|---------|-------|-------|---------------|-------|-------|---------|-------|-------|--------|-------|-------|
| | (₹) | TP (₹) | Rating | | FY17E | FY18E | FY19E | FY17E | FY18E | FY19E | FY17E | FY18E | FY19E | FY17E | FY18E | FY19E | FY17E | FY18E | FY19E |
| Coal India | 276 | 365 | Buy | 171604 | 16.1 | 19.6 | 22.4 | 18.6 | 15.3 | 13.4 | 9.8 | 8.0 | 6.6 | 36.9 | 51.5 | 62.1 | 36.1 | 48.6 | 56.3 |
| Hindalco | 194 | 180 | Hold | 40061 | 13.7 | 17.3 | 22.2 | 13.3 | 10.5 | 8.2 | 7.6 | 7.0 | 6.2 | 7.0 | 7.6 | 8.5 | 6.8 | 8.0 | 9.4 |
| Hindustan Zinc | 245 | 300 | Buy | 103344 | 19.7 | 23.9 | 25.5 | 13.8 | 11.3 | 10.6 | 9.3 | 7.3 | 6.1 | 26.9 | 33.2 | 30.3 | 27.0 | 27.0 | 24.3 |
| JSW Steel | 190 | 215 | Buy | 45927 | 14.3 | 18.8 | 20.8 | 13.5 | 10.2 | 9.3 | 7.2 | 6.7 | 6.3 | 13.3 | 14.5 | 14.5 | 15.3 | 17.4 | 16.4 |
| SAIL | 60 | 60 | Buy | 24948 | -5.9 | -0.6 | 6.2 | NA | NA | 10.1 | 62.6 | 13.6 | 6.6 | -2.0 | 2.1 | 7.0 | -6.5 | -0.7 | 7.3 |
| Vedanta | 242 | 260 | Buy | 71753 | 15.1 | 30.5 | 34.4 | 9.3 | 16.3 | 15.9 | 4.8 | 4.1 | 3.6 | 12.1 | 14.2 | 14.8 | 9.3 | 16.3 | 15.9 |
| Tata Steel | 484 | 550 | Buy | 143506 | 42.2 | 47.0 | 64.2 | 11.5 | 10.3 | 7.5 | 7.4 | 7.2 | 6.0 | 9.4 | 9.4 | 11.1 | 10.8 | 13.8 | 16.2 |

Source: Company, ICICIdirect.com Research

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