

Rating matrix

Rating	: Buy
Target	: ₹ 375
Target Period	: 12 months
Potential Upside	: 13%

What's Changed?

Target	Changed from ₹ 335 to ₹ 375
EPS FY19E	Changed from ₹ 24.7 to ₹ 29.0
EPS FY20E	Changed from ₹ 28.6 to ₹ 31.8
Rating	Unchanged

Quarterly Performance (Consolidated)

	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Adj. Rev.	20,817	16,656	25.0	17,861	16.6
EBITDA	5,290	3,165	67.1	3,851	37.4
EBITDA (%)	25.4	19.0	641 bps	21.6	385 bps
PAT	2,865.0	1,008.5	184.1	1,774.0	61.5

Key Financials

(₹ Crore)	FY17	FY18E	FY19E	FY20E
Net Revenues	55,605	70,225	71,382	73,757
EBITDA	12,174	14,794	16,996	18,260
Adj Net Profit	3,467	6,113	7,014	7,675
Adj EPS (₹)	14.3	25.3	29.0	31.8

Valuation summary

	FY17	FY18E	FY19E	FY20E
PE (x)	23.2	13.1	11.5	10.5
Target PE (x)	26.1	14.8	12.9	11.8
EV/EBITDA (x)	10.0	7.9	6.9	6.7
P/BV (x)	3.5	2.9	2.7	2.2
Adj RoNW (%)	15.3	21.8	23.2	20.7
Adj RoCE (%)	13.4	17.9	19.5	17.5

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

Stock data

Particular	Amount
Market Capitalisation (₹ Crore)	80,317
Debt-Cons. (FY18) (₹ Crore)	38,019
Cash Cons. (FY18) (₹ Crore)	1,063
EV (₹ Crore)	117,273
52 week H/L	₹ 184 / 343
Equity capital	₹ 241.7 crore
Face value	₹ 1

Price performance (%)

Return %	1M	3M	6M	12M
JSW Steel	7.4	6.3	24.5	60.6
Tata Steel	2.4	-11.5	-3.6	36.8

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JSW Steel (JSWSTE)

₹ 332

Stellar quarter, to stay on strong footing...

- JSW Steel reported stellar Q4FY18 numbers. Sales volume for the quarter was at 4.22 million tonnes (MT), up 7% YoY, 6% QoQ, higher than our estimate of 4.0 MT. Consolidated topline for the quarter was at ₹ 20817 crore (up 25% YoY, 17% QoQ) significantly higher than our estimate of ₹ 18820.6 crore primarily due to healthy realisations
- Standalone operations posted a robust EBITDA/tonne of ₹ 11950/tonne significantly higher than our estimate of ₹ 10000/tonne (Q3FY18: ₹ 9000/tonne, Q4FY17: ₹ 7586/tonne, Adjusted EBITDA/tonne stood at ₹10712/tonne). Consolidated EBITDA came in at ₹ 5290 crore (up 67% YoY, 37% QoQ, higher than our estimate: ₹ 4288.7 crore). The company reported other income of ₹ 45 crore, depreciation of ₹ 865 crore and interest & finance cost of ₹ 883 crore. The ensuing consolidated PAT came in at ₹ 2879 crore

Ends FY18 with robust EBITDA/tonne, deleveraged balance sheet...

JSW Steel reported a robust FY18 performance on the back of healthy realisations and moderating costs. The FY18 saleable steel volume increased 6% YoY to 15.62 million tonne (MT) while the consolidated topline reported a healthy increase of 26.3% YoY to ₹ 70225 crore (vs. ₹ 55605 crore in FY17). Consolidated EBITDA for FY18 increased 21.5% YoY to ₹ 14794 crore (vs. ₹ 12174 crore in FY17). EBITDA/tonne of the domestic operations improved ~13.1% YoY to ₹ 8797/tonne in FY18 from ₹ 7778/tonne in FY17. Furthermore, on the leverage front, consolidated net debt declined to ₹ 38019 crore (as of Q4FY18) from ₹ 42068 crore (as on Q3FY18). Consolidated net debt to EBITDA improved to 2.57x (as of Q4FY18) from that of 3.41x (as on Q4FY17), auguring well.

Capex for FY18-21E upward revised with focus on backward integration...

JSW Steel has upward revised its capex guidance for FY18-21. The company has announced an additional capex of ₹ 17561 crore towards new projects taking total capex for FY18-21 to ₹ 44376 crore (from ₹ 26815 guided earlier). The total capex outlay now accounts for ₹ 21700 crore towards upstream projects wherein overall crude production capacity will be enhanced from 18 MT to 24.7 MT. The company has allocated ₹ 5292 crore towards downstream projects wherein value added capacity will be increased by 3.2 MT (from 5.5 MT currently). Capex for cost saving projects like the pellet plant, coke ovens, captive power plant and pipe conveyor would amount to ₹ 12069 crore. Mining assets would entail a capex of ₹ 704 crore while the balance ₹ 4611 crore would comprise sustenance and other capex. The management has guided for a capex of ₹ 10000 crore for FY19E, ₹ 15000 crore for FY20E and ₹ 14687 crore for FY21E.

Improvement in EBITDA/t amid healthy outlook augurs well; reiterate BUY

JSW Steel reported a consistent improvement in EBITDA/tonne in FY18. We remain positive on the domestic steel consumption story driven by increased government expenditure/policies and supportive macros. We like the company given the higher exposure to flats/value added products in its product portfolio, which ensures stable realisations with healthy demand prospects. We model sales volume of 16 MT and 16.4 MT along with EBITDA/tonne of ₹ 10000/tonne and ₹ 10500/tonne for FY19E and FY20E, respectively. We value the stock on an SOTP basis assigning 6.5x FY20E EV/EBITDA to the core and factoring in CWIP till FY20E at 0.7x book. Hence, we arrive at a target price of ₹ 375. We maintain our **BUY** recommendation on the stock.

Variance analysis

	Q4FY18	Q4FY18E	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Comments
Adjusted Revenue (net of excise)	20,817.0	18,820.6	16,656.2	25.0	17,861.0	16.6	The topline came in above our estimate on account of higher sales volume and healthy realisations. During the quarter, company recognizing ₹520 crore for incentives on SGST after the governments of Maharashtra and Karnataka announced that the hitherto applicable VAT/CST incentives would continue post GST as well. Of the ₹ 520 crore of incentives, close to ₹ 367 crore pertains to previous quarter. Adjusting for the same the EBITDA/tonne stood at ₹10712/tonne.
Other Income	45.0	41.0	55.8	-19.4	42.0	7.1	
Employee Expense	471.0	311.2	406.6	15.8	460.0	2.4	
Raw Material Expense	10,819.0	11,021.5	9,301.4	16.3	10,064.0	7.5	
Power & Fuel Expense	1,515.0	1,229.2	1,388.4	9.1	1,437.0	5.4	
Other operating Expenses	2,722.0	1,970.0	2,394.9	13.7	2,049.0	32.8	
EBITDA	5,290.0	4,288.7	3,164.9	67.1	3,851.0	37.4	EBITDA came in significantly higher than our estimates
EBITDA Margin (%)	25.4	22.8	19.0	641 bps	21.6	385 bps	EBITDA margin was higher than our estimates
Depreciation	865.0	856.3	877.9	-1.5	852.0	1.5	
Interest	883.0	939.3	947.6	-6.8	923.0	-4.3	
Exceptional Item	-	-	-	-	264.0	-	
PBT	3,587.0	2,534.1	1,395.2	157.1	1,854.0	93.5	
Tax Outgo	715.0	836.3	399.2	79.1	94.0	660.6	
PAT	2,872.0	1,711.2	996.0	188.4	1,760.0	63.2	
Minority Interest, Share of Associate & Extra Ordinary Item	7.0	-9.4	-12.5	-156.0	-14.0	-150.0	
PAT for the Group	2,865.0	1,701.8	1,008.5	184.1	1,774.0	61.5	PAT came in higher than our estimates

Key Metrics

Steel Sales (MT)	4.2	4.0	4.0	5.5	4.0	5.5	Sales volume came in higher than our estimates
Standalone EBITDA/tonne (₹)	11950	10000	7586	57.5	9000	32.8	EBITDA/tonne was significantly higher than our estimates

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	Introduced	% Change	
Revenue	70,822	71,382	0.8	73,165	73,757	0.8	Upward revised estimates for both years on all parameters
EBITDA	15,620	16,996	8.8	16,853	18,260	8.4	
EBITDA Margin (%)	22.1	23.8	175 bps	23	24.8	172 bps	
EBITDA (₹/tonne)	9000	10000	11.1	9,500	10500	10.5	
PAT	5976	7014	17.4	6,910	7675	11.1	
EPS (₹)	24.7	29.0	17.4	28.6	31.8	11.1	

Source: Company, ICICI Direct Research, *-Standalone entity

Assumptions

	Current			Earlier			Comments
	FY18	FY19E	FY20E	FY19E	FY20E	FY20E	
Total Steel Sales (MT)	15.5	16.0	16.4	16.2	16.7	16.4	Aligned sales volume estimates with company's guidance
EBITDA/tonne (₹/tonne)*	8,770	10,000	10,500	9,000	9,500	10,500	EBITDA/tonne estimates revised upward for both years

Source: Company, ICICI Direct Research, *-Standalone entity

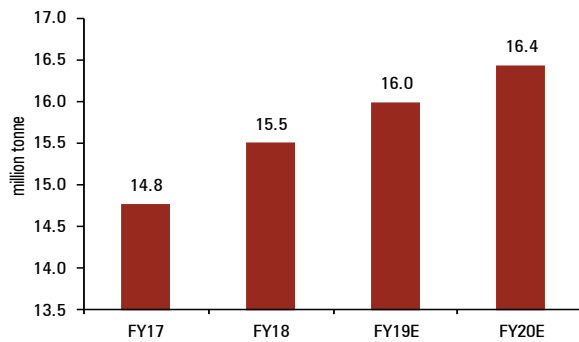
Company Analysis

JSW Steel augmented its steel producing capacity from 14.3 million tonne (MT) to 18.0 MT during 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 the earlier 3.3 MT while the plant capacity at Salem, Tamil Nadu stood as is at 1 MT.

Model sales volume of 16.0 MT for FY19E, 16.4 MT for FY20E...

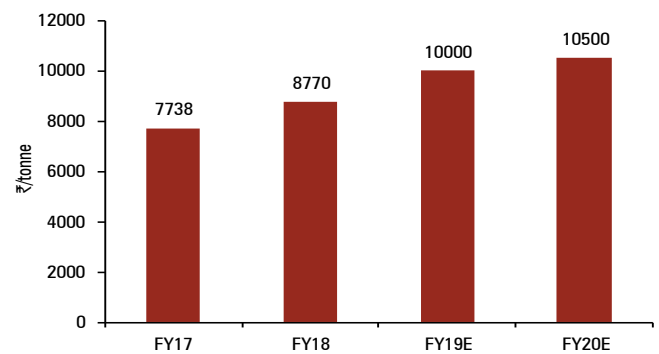
For FY19E, we model sales volumes in line with the management guidance of 16.0 MT. During FY18, sales volumes were at ~15.6 MT, up 6% YoY. Though steel production during H1FY18 was impacted by rollout of GST (disrupting iron ore supply in Karnataka, impacting Vijayanagar plant) and water shortage in Tamil Nadu (impacting Salem facility), the company achieved its sales volume guidance. For FY19E and FY20E, we model sales volumes of 16.0 MT and 16.4 MT, respectively, implying ~2.5% YoY growth for both years.

Exhibit 1: Sales volume trend...



Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

Company to operationalise two mines in Q4FY18...

In the auctions held in September 2016 of category C iron ore mines in Karnataka, JSW Steel bagged five mines. Estimated resources in these five mines as per tender documents is ~111 million tonnes (MT). The mineable content from these mines is estimated to be ~93.0 MT. The annual capacity of these mines are together at ~4.7 MT.

During the quarter, the company obtained all required clearances and final commencement letter from Government of Karnataka for starting operations with respect to Tunga mines with capacity of ~0.3 MT. The management is planning to commence operations at another mine within a month (probably June-2018). The remaining three mines have obtained stage-1 clearance from MoEF and are likely to start operations H2FY19.

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

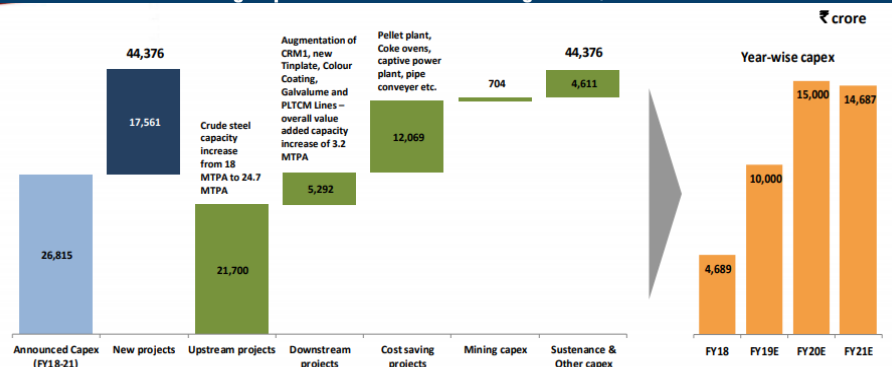
Sr. No	Name of Mine	Est. Resource (MT)
1	Ram Rao Paol	31.5
2	Tungabhadra Minerals Pvt Ltd	33.9
3	Tungabhadra Minerals Pvt Ltd	6.9
4	Hothur Traders	10.0
5	V S Lad & Sons	28.6

Source: Source: Department of Mines and Geology (Government of Karnataka), ICICI Direct Research

Capex guidance revised upwards, focus now on backward integration...

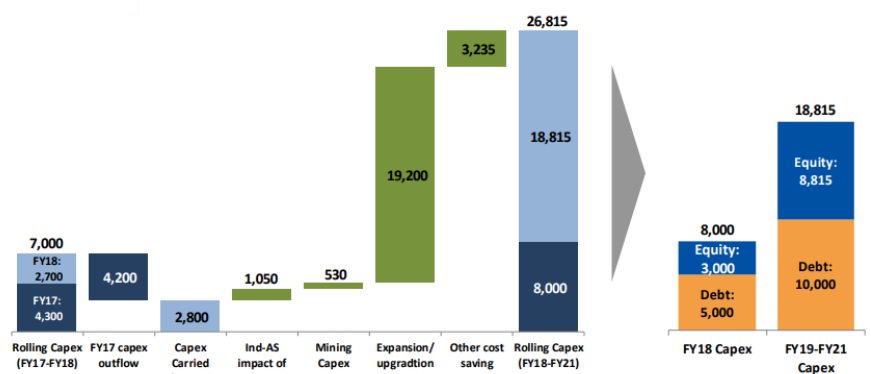
JSW Steel has upward revised its capex guidance for FY18-21. The company has announced an additional capex of ₹ 17561 crore towards new projects taking the total capex for FY18-21 to ₹ 44376 crore (from ₹ 26815 guided earlier). The total capex outlay now accounts for ₹ 21700 crore towards upstream projects wherein overall crude production capacity will be enhanced from 18 MT to 24.7 MT. The company has allocated ₹ 5292 crore towards downstream projects wherein value added capacity will be increased by 3.2 MT (from 5.5 MT currently). The capex for cost saving projects like the pellet plant, coke ovens, captive power plant and pipe conveyor would amount to ₹ 12069 crore. The mining assets would entail a capex of ₹ 704 crore while the balance ₹ 4611 crore would comprise sustenance and other capex. The management has guided for a capex of ₹ 10000 crore for FY19E, ₹ 15000 crore for FY20E and ₹ 14687 crore for FY21E.

Exhibit 4: Additional rolling capex for FY18-21 amounting to ₹17,561 crore



Source: Company, ICICI Direct Research

Exhibit 5: Rolling capex for FY18-21E of ₹26815 crore guided earlier

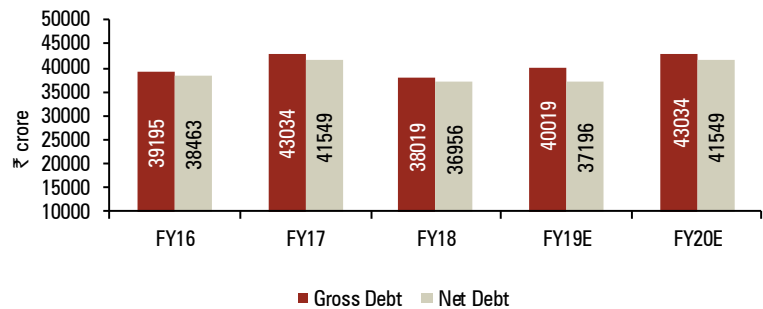


Source: Company, ICICI Direct Research

Cash flow to likely fund capex partly...

On a consolidated basis, at the end of Q4FY18, net gearing was at 1.38x (1.68x at the end of Q3FY18) while net debt to EBITDA was at 2.57x (3.32x at the end of Q3FY18). On a standalone basis, at the end of Q4FY18, net gearing was at 1.27x (1.53x at the end of Q3FY18) while net debt to EBITDA was at 2.59x (3.40x at the end of Q3FY18). We expect the company to deploy its cash flows generated towards the ongoing capex programme.

Exhibit 5: Gross debt & net debt trend



Source: Company, ICICI Direct Research

Performance of subsidiaries...

JSW Steel Coated Products

For Q4FY18, the company registered production (galvanised/galvalume products) of 0.48 million tonne (MT) and sales volume of 0.47 MT. Revenues and EBITDA were at ₹ 3043 crore and ₹ 202 crore, respectively. The net profit after tax came in at ₹ 87 crore.

For FY18, production came in at 1.7 MT. Revenues were at ₹ 12553 crore with EBITDA of ₹ 638 crore and net profit of ₹ 275 crore.

US Plate and Pipe Mill

For Q4FY18, the company's plate production was at 71015 net tonnes while pipe production was at 12142 net tonnes. Sales volume for the quarter was at 52835 net tonnes of plates and 12222 net tonnes of pipes. Reported EBITDA was at US\$3.25 million.

For FY18, the company's operations witnessed a turnaround. With trade remedial actions in the US, strong domestic growth and higher spreads, the facility generated a positive EBITDA. It recorded production of 248444 net tonnes of plates and 50301 net tonnes of pipes with capacity utilisation of 26% and 9%, respectively. EBITDA for the year was at US\$13.22 million.

Key takeaway from conference call

Global steel scenario

- Global finished steel demand (ex-China) is expected to grow 3.4% in CY18 and by 2.9% in CY19. Indian finished steel demand, on the other hand, is forecast to grow at 5.5% in CY18 and 6% in CY19
- Chinese steel exports continued their declining trend during the year from their peak of ~10 MT from mid-2016 to below 5 MT as of March 2018
- The management expects global steel prices to remain buoyant with steady demand growth across regions

Indian steel industry

- Steel demand grew at a healthy ~8% in Q4FY18. Steel consumption growth momentum is likely to be supported by government push for infrastructure and strengthening consumer demand
- Imports of steel in FY18 remained elevated, indicating the trade measures were ineffective. Flat products imports were up 8% in FY18 with imports of coated products surging 93% and colour coated products increasing 169%
- Imports from Korea and Japan increased 13% YoY in FY18 and constituted 45% of total imports
- The management indicated that with imposition of Section 232 in the US and rising trade measures in the region, there is a likelihood of surplus steel finding their way into India – necessitating imposition of effective trade remedial measures in a timely manner
- The management indicated domestic steel demand is likely to grow ~7-7.5% in FY19

Consolidated quarterly sales highlights

Overall sales volume grew 6% YoY and 4% QoQ to 4.18 MT. Domestic sales grew ~41% YoY. Exports accounted for 30% of volumes during the quarter. Overall value added & special products (VASP) and special products sales grew 14% YoY (57% of overall sales). While sales to automotive customers grew 57% YoY while automotive production grew 26% YoY.

Consolidated full year sales highlights

Overall sales volume grew 6% YoY to 15.55 MT. Domestic sales grew 9% YoY to 11.91 MT. Exports accounted for ~23% of overall volumes. VASP and special products sales grew 13% YoY accounting for ~58% of overall sales. Sales to automotive customers grew 27% YoY while automotive production grew 15% YoY.

Few Q4FY18 performance drivers

- Average sales realisations increased ~10% QoQ driven by higher steel prices (for both flats, longs) in both domestic and export markets
- Sales of value added and special products improved with market share gains in automotive sector
- Pursuant to notification of incentive schemes in the GST regime by governments of Maharashtra and Karnataka, recognised incentive benefits were ₹ 303 crore for Q4 (₹ 362 crore for prior periods)
- Blended coking coal prices increased by ~US\$20/tonne QoQ. Blended iron ore costs also increased due to price hikes taken by domestic iron ore miners. The surge in prices of other key inputs like electrodes and refractories also led to higher conversion costs
- During the quarter, the finance cost reduced by ~₹ 40 crore on account of repayments aided by strong cash flows

- The company recognised deferred tax asset in the US businesses to the tune of ₹ 729 crore in view of improving the business performance and medium term outlook

FY19 outlook

- The domestic demand outlook remains robust with a pick-up in domestic macro – investment as well as consumption indicators. We expect steel demand growth of 7-7.5% in FY19
- Government focus on infrastructure investment and credit growth through strengthening of the banking system is expected to boost steel demand. Roads and highways, railways, metro projects, water and energy pipelines, irrigation, affordable housing, etc, should be the key drivers of growth
- Chinese exports have been increasing in recent months although they remain lower than the previous year. Overall lower Chinese steel exports and strong demand should support global steel prices
- Raw material prices have seen some moderation in the recent past and should aid in preserving margins
- Rising protectionism, hardening interest rates, increasing oil prices and heightened geopolitical concerns pose a risk to the global growth outlook

Rolling capex plan FY18-21

- The company has revised upward the rolling capex guidance for FY18-21 from ₹ 26815 crore to ₹ 44376 crore (an increase of ₹ 17561 crore towards new projects)
- Capex for upstream projects has been pegged at ₹ 21700 crore while that of the downstream projects was at ₹ 5292 crore. Cost saving projects would account for ₹ 12069 crore capex. While capex towards mining projects would be ₹ 704 crore, the balance ₹ 4611 crore would be spent towards sustenance and other capex
- The management has guided at a capex spend of ₹ 10000 crore in FY19E, ₹ 15000 crore in FY20E and ₹ 14687 crore in FY20E

Key new projects

Dolvi augmentation to 10.66 MT

The total project cost is estimated to be ₹ 1375 crore. The DRI capacity in Salav will be increased from 0.9 MT to 1.6 MT. Steel melting shop (SMS) will be modified and augmented for hot charging of DRI. The commissioning is expected by March 2020.

Vijayanagar augmentation to 13 MT

The total project cost is estimated at ₹ 2300 crore. The capex would enhance SMS capacity, augmenting hot strip mill (HSM) and wire rod mill to support the BF-3 capacity. The project would be commissioned by March 2020

Downstream modernisation-cum-capacity enhancement

The total project cost is estimated to be ₹ 1470 crore. The project includes setting up colour coating line at Vijayanagar of 0.3 MT, setting up of pickling line tandem cold mill (PLTCM) of 1.5 MT instead of earlier plan of Batch Tandem Mill of 0.96 MT at Vasind and Tarapur. An additional tinplate line would be set up at Tarapur with a capacity of 0.2 MT. Further, the capacity of pre-painted galvanised line (PPGL) will be enhanced by 0.22 MT. The project is expected to get commissioned between September 2019 and March 2020.

Vijayanagar manufacturing Integration

Total project cost is estimated to be ₹ 5200 crore, includes setting up of an 8 MT pellet plant, coke over battery of 1.5 MT. The commissioning is likely by March 2020.

Dolvi coke projects

The total project cost is estimated at ₹ 2050 crore. The company is setting up second line of 1.5 MT along with coke dry quenching (CDQ). The commissioning of the same is expected by June 2020.

Dolvi captive power

The project cost is estimated at ₹ 975 crore wherein 175 MW waste heat recovery boilers (WHRB) and 60 MW captive power plant (CPP) will be set up to harness flue gases and steam from CDQ. The commissioning is likely by March 2020.

- The company plans to spend ₹ 39715 crore over the next three years. The projects are planned to be funded by a mix of debt and internal accruals keeping overall leverage ratios within the targeted threshold levels of 3.75x net debt to EBITDA and 1.75x net debt to equity
- The capex announced in the previous year continues to be on track

Other Highlights

- The blended coking coal consumption cost moved up from US\$187/tonne CFR in Q3FY18 to US\$205/tonne in Q4FY18
- Weighted average interest cost declined 24 bps during the year to 7.04%
- The Competition Commission of India (CCI) has approved the company's bid to acquire Monnet Ispat & Energy. The company along with AION Investments Pvt Ltd (AION) had submitted the bid jointly

Valuation

JSW Steel reported a consistent improvement in EBITDA/tonne over FY18. We remain positive on the domestic steel consumption story driven by increased government expenditure/policies and supportive macros. We like the company given the higher exposure to flats and value added products in its product portfolio, which ensures stable realisations with healthy demand prospects. We model sales volume and 16 MT and 16.4 MT with EBITDA/tonne of ₹ 10000/tonne and ₹ 10500/tonne for FY19E and FY20E, respectively. We value the stock on an SOTP basis assigning 6.5x FY20E EV/EBITDA to the core and factoring in CWIP till FY20E at 0.7x book. Hence, we arrive at a target price of ₹ 375. We maintain **BUY** recommendation on the stock.

Exhibit 6: Target price calculation

Particular	Unit	Value
EBITDA	₹ crore	18260
EV/EBITDA Multiple	x	6.5
Enterprise Value (EV)	₹ crore	118691
Gross Debt	₹ crore	44419
Cash & Cash Eq	₹ crore	3292
Net Debt (FY20E)	₹ crore	41127
FY20E CWIP (@0.7x)	₹ crore	12970
Implied Market Cap	₹ crore	90534
No of Shares	crore	241.7
Target Price	₹	375

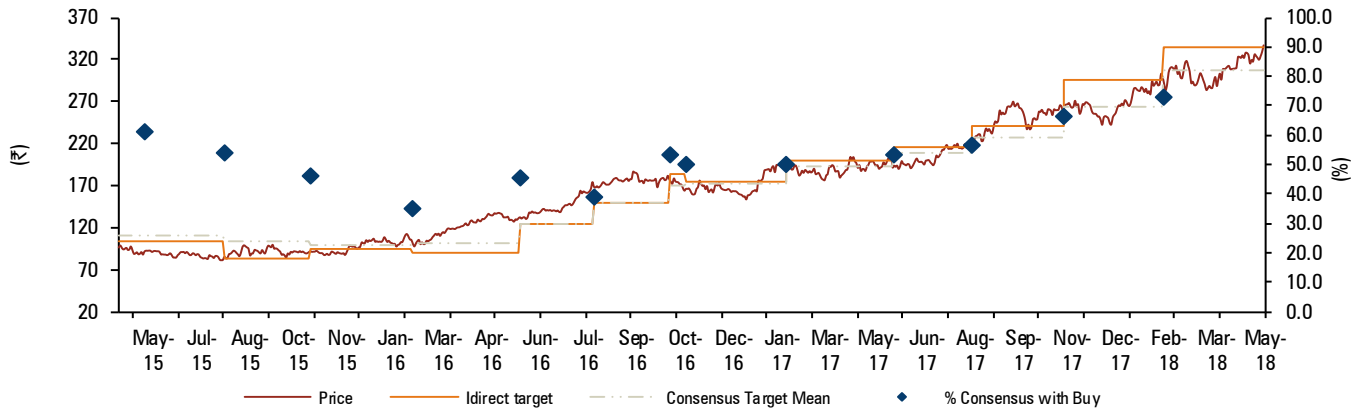
Source: Company, ICICI Direct Research

Exhibit 7: Valuation Matrix

	Sales (₹ Crore)	Growth (% YoY)	EPS (₹)	Growth (% YoY)	PE	(x)	EV/EBIDTA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
FY15	52,972	3.4	76.3	-14.8		4.4	12.0	0.3	8.0	10.3
FY16	41,879	-20.9	5.7	PL		NM	19.6	3.7	6.4	4.8
FY17	55,605	32.8	14.3	150.6		23.2	10.0	3.5	15.3	13.4
FY18	70,225	26.3	25.3	76.3		13.1	7.9	2.9	21.8	17.9
FY19E	71,382	1.6	29.0	14.7		11.5	6.9	2.7	23.2	19.5
FY20E	73,757	3.3	31.8	9.4		10.5	6.7	2.2	20.7	17.5

Source: Company, ICICI Direct Research

Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Jun-17	The board of JSW Steel approves raising of long term funds. Accordingly, the company will raise ₹ 4000 crore through issuance of non-convertible debentures with warrants or equity shares or fully/partially/optionally convertible debentures to qualified institutional buyers by way of QIP. Furthermore, the board has also approved raising US\$1 billion through issue of foreign currency convertible bonds/ADR/GDR/warrants or other instruments convertible into equity shares optionally or otherwise in course of an international offering, in one or more foreign markets
Jun-17	The board of directors of JSW Steel approves setting up of a slurry pipeline to transport iron ore from coastal Karnataka to the Vijayanagar works. The construction of the pipeline is likely to take 24 months at an estimated cost of ₹ 2100 crore. The same would enable the company to transport iron ore at a competitive 15% cost of alternate means of transport. Furthermore, the pipeline will help the company source almost 50% of the current iron ore requirement at Vijayanagar works from outside Karnataka either from imports or from Odisha/eastern sector at prices lower than prevailing prices in Karnataka
Sep-17	JSW Steel receives all statutory clearances for two out of five iron ore mines that it won in Karnataka. The company had participated in auctions of iron ore mines and won five mines in October 2016, which have estimated reserves of 111 million tonnes. The forest clearance for the remaining three mines is likely to be received in the next six to nine months
Feb-18	JSW Steel has obtained all required clearances and obtained the final commencement letter from the Karnataka government for starting of operations at Tunga Mines having capacity of 0.3 million tonne (MT)
Mar-18	JSW Steel (US) Inc (subsidiary of JSW Steel) and the Office of Governor (Texas, US) have signed a memorandum of cooperation in line with the US government's programme and priorities on infrastructure development and job creation. The company intends to consider investment up to US\$500 million (subject to Environmental Protection Agency approval) to expand its operations in Texas, US. The said funds would be deployed towards backward integration to set up melt and manufacture contiguous plate & pipe facility. The Office of Governor has approved the grant of US\$3.4 million to the company from Texas Enterprise Fund. Also, JSW Steel (US) Inc will be re-branded as JSW US
Apr-18	India Ratings & Research (Ind-Ra) has revised JSW Steel's rating outlook to Stable (from Negative earlier) while affirming its long term rating of IND AA- assigned to the nonconvertible debenture programme. The outlook revision reflects Ind-Ra's view of a higher-than-expected improvement in JSW's credit profile over the next 12-18 months. The agency also expects the company to report higher per tonne margins on back of higher realisations and volume growth

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Jindal Organisation	31-Mar-18	0.2	456.3	-94.8
2	JFE Steel Corporation	31-Mar-18	0.2	362.6	0.0
3	M. M. Warburg Bank (Schweiz) AG	31-Mar-18	0.1	218.7	109.4
4	Vividh Consultancy & Advisory Services Pvt. Ltd.	31-Mar-18	0.1	140.7	0.9
5	Sahyog Tradecorp Pvt. Ltd.	31-Mar-18	0.0	110.6	0.5
6	JSW Energy Ltd	3-Apr-18	0.0	61.1	-9.0
7	Danta Enterprises Pvt. Ltd.	31-Mar-18	0.0	60.4	0.0
8	Virtuous Tradecorp Pvt. Ltd.	31-Mar-18	0.0	60.4	0.0
9	Gagandeep Credit Capital Pvt. Ltd.	31-Mar-18	0.0	46.0	0.0
10	The Vanguard Group, Inc.	31-Mar-18	0.0	40.9	-0.6

Source: Reuters, ICICI Direct Research

Shareholding Pattern

in (%)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoters	41.6	41.6	41.6	41.7	41.8
FII	20.0	19.9	19.8	19.8	19.9
DII	17.4	18.4	18.7	17.9	18.7
Others	21.0	20.1	19.8	20.7	19.7

Recent Activity

Buys			Sells		
Investor Name	Value (M)	Shares(M)	Investor Name	Value (M)	Shares(M)
M. M. Warburg Bank (Schweiz) AG	483.8	109.4	Jindal Organisation	-419.4	-94.8
Glebe Trading Pvt. Ltd.	75.9	17.2	Norges Bank Investment Management (NBIM)	-61.9	-14.6
Baron Capital Management, Inc.	52.7	11.9	JSW Energy Ltd	-43.8	-9.0
Reliance Nippon Life Asset Management Limited	20.1	4.5	Invesco PowerShares Capital Management LLC	-4.9	-1.2
JM Financial Asset Management Pvt. Ltd.	4.7	1.1	Caisse de Depot et Placement du Quebec	-3.3	-0.8

Source: Reuters, ICICI Direct Research

Financial summary (Consolidated)

Profit and loss statement (₹ crore)				
(Year-end March)	FY17	FY18	FY19E	FY20E
Total operating Income	55,604.6	70,225.0	71,381.5	73,756.6
Growth (%)	32.8	26.3	1.6	3.3
Raw Material Expenses	28,262.7	39,025.0	37,884.8	38,747.6
Employee Expenses	1,699.6	1,843.0	2,096.3	2,119.0
Power and Fuel Costs	4,882.8	5,697.0	5,348.8	5,353.4
Mfg and Other expenses	8,585.3	8,866.0	9,055.6	9,276.4
Total Operating Expenditure	43,430.4	55,431.0	54,385.5	55,496.4
EBITDA	12,174.2	14,794.0	16,996.0	18,260.2
Growth (%)	100.5	21.5	14.9	7.4
Depreciation	3,429.9	3,387.0	3,789.3	4,026.1
Interest	3,768.1	3,701.0	3,511.7	3,706.8
Other Income	152.1	167.0	250.0	340.0
PBT	5,128.4	7,873.0	9,945.0	10,867.2
Exceptional Item	0.0	-264.0	0.0	0.0
Total Tax	1,674.3	1,538.0	2,958.6	3,233.0
Reported PAT Before MI	3,454.1	6,071.0	6,986.3	7,634.2
Profit/(loss) - JV/MI/Associate	13.2	42.0	27.3	40.4
Reported PAT After MI	3,467.2	6,113.0	7,013.6	7,674.6
Growth (%)	NA	76.3	14.7	9.4
Adj PAT after MI	3,467.2	6,113.0	7,013.6	7,674.6
Adj 'EPS (₹)	14.3	25.3	29.0	31.8

Source: Company, ICICI Direct Research

Balance sheet (₹ crore)				
(Year-end March)	FY17	FY18	FY19E	FY20E
Liabilities				
Share Capital	301.3	302.0	302.0	302.0
Reserve and Surplus	22,346.3	27,696.0	29,895.3	36,835.3
Total Shareholders funds	22,647.6	27,998.0	30,197.3	37,137.3
Total Debt	43,034.0	38,019.0	40,019.0	44,419.0
Deferred Tax Liability	3,073.6	2,604.0	2,604.0	2,604.0
Minority Interest / Others	392.6	729.0	779.0	829.0
Total Liabilities	69,147.7	69,350.0	73,599.3	84,989.3
Assets				
Gross Block	90,288.6	92,832.8	96,632.8	103,932.8
Less: Acc Depreciation	31,276.8	34,663.8	38,453.1	42,479.2
Net Block	59,011.8	58,169.0	58,179.7	61,453.5
Capital WIP	4,081.4	5,629.0	11,829.0	18,529.0
Total Fixed Assets	63,093.2	63,798.0	70,008.7	79,982.5
Investments	1,367.1	1,469.0	1,469.0	1,469.0
Inventory	11,395.0	12,594.0	12,455.3	13,269.7
Debtors	4,149.4	4,704.0	4,889.1	6,062.2
Loans and Advances	2,534.7	3,823.0	3,923.0	4,023.0
Other Current Assets	3,931.8	4,519.0	4,569.0	4,619.0
Cash	1,485.1	1,063.0	2,822.6	2,979.7
Total Current Assets	23,496.0	26,703.0	28,659.0	30,953.6
Current Liabilities	18,680.1	22,484.0	26,401.4	27,279.8
Provisions	212.8	184.0	184.0	184.0
Total Current Liabilities	18,892.9	22,668.0	26,585.4	27,463.8
Net Current Assets	4,603.1	4,035.0	2,073.6	3,489.8
Deferred tax Assets (net)	84.4	48.0	48.0	48.0
Application of Funds	69,147.7	69,350.0	73,599.3	84,989.3

Source: Company, ICICI Direct Research

Cash flow statement (₹ crore)				
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	3,467.2	6,113.0	7,013.6	7,674.6
Add: Depreciation	3,429.9	3,387.0	3,789.3	4,026.1
(Inc)/dec in Current Asset	-3,516.3	-3,629.1	-196.4	-2,137.5
Inc/(dec) in CL&Provisions	-348.2	3,775.1	3,917.4	878.5
Others	1,843.9	-433.2	0.0	0.0
CF from operating activities	4,876.4	9,212.8	14,523.8	10,441.7
(Inc)/dec in Investments	-748.7	-101.9	0.0	0.0
(Inc)/dec in Fixed Assets	-4,435.1	-4,963.5	-10,000.0	-14,000.0
Others	-64.5	336.4	50.0	50.0
CF from investing activities	-5,248.3	-4,729.0	-9,950.0	-13,950.0
Issue/(Buy back) of Equity	-764.0	0.7	0.0	0.0
Inc/(dec) in loan funds	3,839.0	-5,015.0	2,000.0	4,400.0
Dividend paid & dividend tax	-451.0	-451.9	-593.2	-734.6
Inc/(dec) in Sec. premium	-1,246.7	-311.4	-4,221.0	0.0
Others	-252.5	871.7	0.0	0.0
CF from financing activities	1,124.8	-4,905.9	-2,814.3	3,665.4
Net Cash flow	752.9	-422.1	1,759.6	157.1
Opening Cash	732.1	1,485.1	1,063.0	2,822.6
Closing Cash	1,485.1	1,063.0	2,822.6	2,979.7

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
Adj EPS	14.3	25.3	29.0	31.8
Cash EPS	28.5	39.3	44.7	48.4
BV	93.7	115.8	124.9	153.6
DPS	1.2	1.2	1.6	2.0
Cash Per Share	6.1	4.4	11.7	12.3
Operating Ratios (%)				
EBITDA Margin	21.9	21.1	23.8	24.8
PBT / Total Operating income	9.2	11.2	13.9	14.7
Adj PAT Margin	6.2	8.7	9.8	10.4
Inventory days	147	118	120	125
Debtor days	27	24	25	30
Creditor days	123	117	135	135
Return Ratios (%)				
Adj RoE	15.3	21.8	23.2	20.7
Adj RoCE	13.4	17.9	19.5	17.5
RoIC	13.6	17.6	19.6	18.1
Valuation Ratios (x)				
P/E	23.2	13.1	11.5	10.5
EV / EBITDA	10.0	7.9	6.9	6.7
EV / Net Sales	2.2	1.7	1.6	1.6
Market Cap / Sales	1.4	1.1	1.1	1.1
Price to Book Value	3.5	2.9	2.7	2.2
Solvency Ratios				
Debt/EBITDA	3.5	2.6	2.4	2.4
Debt / Equity	1.9	1.4	1.3	1.2
Current Ratio	1.3	1.2	1.1	1.1
Quick Ratio	0.6	0.6	0.6	0.6

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Metals & Mining)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	TP (₹)	Rating		FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Coal India	272	325	Hold	168531	15.1	19.1	21.8	19.5	15.4	13.5	10.0	7.8	6.7	38.3	48.4	59.6	36.8	42.9	
Hindalco	232	275	Buy	51666	19.9	24.8	29.2	11.7	9.3	8.0	6.3	6.1	5.3	9.4	10.4	11.1	8.1	9.6	
Hindustan Zinc	308	350	Buy	130130	22.0	23.8	28.6	14.0	12.9	10.8	8.8	7.7	5.9	34.0	31.5	32.3	25.8	23.6	
JSW Steel	332	375	Buy	80251	25.3	29.0	31.8	13.1	11.5	10.5	7.9	6.9	6.7	17.9	19.5	17.5	21.8	23.2	
NMDC	115	145	Buy	36354	12.7	13.4	14.3	10.6	10.1	9.5	6.1	5.7	6.1	20.5	21.0	21.4	15.7	15.0	
Vedanta	285	350	Buy	84503	20.0	35.2	42.6	14.3	8.1	6.7	4.9	3.9	3.2	17.6	19.2	21.7	11.7	17.6	

Source: Company, ICICI Direct Research

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