

## EBITDA/tonne to inch up from Q1FY21 level...

JSW Steel reported a mixed performance for Q1FY21. Topline came in lower than our estimate while consolidated EBITDA, EBITDA margin came in higher than our estimate. Consolidated operating topline came in at ₹ 11782 crore (down 41% YoY, 34% QoQ), lower than our estimate of ₹ 12351 crore. Standalone EBITDA was at ₹ 1429 crore (our estimate of ₹ 1442 crore) while consolidated EBITDA came in at ₹ 1341 crore. Consolidated EBITDA margin was at 11.4%, higher than our estimate of 10.2%. Better-than-expected performance from Indian subsidiaries aided JSW Steel's consolidated performance. However overseas operations continued to incur EBITDA losses. With respect to the consolidated operations, for Q1FY21, other expenses/tonne fell by ~₹ 2300/tonne QoQ to ₹ 8022/tonne, aiding a reduction in overall operating costs sequentially. On a consolidated basis, JSW Steel reported finance cost and depreciation expense of ₹ 1016 crore and ₹ 1047 crore, respectively, while other income was at ₹ 132 crore. Hence, consolidated net loss for the quarter was at ₹ 582 crore.

### Maintains volume guidance...

For FY21, JSW Steel maintained crude steel production guidance of 16 MT and saleable steel sales guidance of 15 MT. For FY21E, we model sales volume guidance of 14.5 MT (upward revised from 13.7 MT earlier).

### Dolvi capacity expansion to be commissioned in H2FY21...

The expansion of crude steel capacity at Dolvi works from 5 million tonnes (MT) to 10 MT along with the captive power plant and coke oven Phase 2 is likely to get commissioned in H2FY21. The 8 MT pellet plant and the wire rod mill at Vijayanagar are expected to be commissioned in Q2FY21. The CRM 1 complex capacity expansion at Vijayanagar from 0.85 MT to 1.8 MT is expected to be commissioned progressively in Q2FY21 and Q3FY21. The downstream modernisation cum-capacity enhancement projects at Vasind, Tarapur and the colour coating line at Kalmeshwar are expected to be commissioned in H2FY21. Project execution at all locations is getting ramped up slowly as the workforce availability is gradually improving. During the quarter, JSW Steel incurred a capex of ~₹ 2369 crore vs. a total planned capex spend of ₹ 9000 crore for FY21.

### Valuation & Outlook

JSW Steel's blended realisations declined ~12% QoQ (by ~₹ 4800/tonne). This resulted in a subdued EBITDA/tonne in Q1FY21 for standalone operations. We expect EBITDA/tonne to inch upwards (from Q1FY21 levels) on account of the recent uptick in steel prices, fall in coking prices (coking coal prices to decline by ~US\$20-25/tonne in Q2FY21 compared to Q1FY21) and with overall improvement in sales volume (with higher proportion of domestic sales). We value the stock on an SoTP basis, thereby arriving at a target price of ₹ 210. We maintain our **HOLD** rating on the stock.



#### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	49,553
Debt-Cons. (FY20) (₹ Crore)	69,015
Cash Cons. (FY20) (₹ Crore)	12,789
EV (₹ Crore)	105,778
52 week H/L	₹ 297 / 133
Equity capital	₹ 241.7 crore
Face value	₹ 1

#### Key Highlights

- On a standalone basis, the company reported sales volume of 2.8 million tonnes (MT) (down 26% YoY, 24% QoQ), broadly in line with our estimate of 2.7 MT. During the quarter, JSW operated at a capacity utilisation of 66% vs. industry average of 46%
- Standalone EBITDA/tonne was at ₹ 5104/tonne (₹ 9936/tonne in Q1FY20 and ₹ 8703/tonne in Q4FY20) vs. our estimate of ₹ 5250/tonne
- Maintain HOLD recommendation on stock with target price of ₹ 210

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#### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	70,225	84,757	73,326	70,834	100,493	17%
EBITDA	14,794	18,952	11,873	9,489	16,779	19%
EBITDA Margin (%)	21.1	22.4	16.2	13.4	16.7	
Adj PAT	6,113	7,554	4,724	808	5,368	7%
EPS (₹)	25.3	31.3	19.5	3.3	22.2	
EV/EBITDA (x)	5.8	5.0	8.9	11.7	6.5	
RoCE (%)	17.9	17.6	7.2	4.5	10.6	
RoE (%)	21.8	21.7	12.7	2.1	12.5	

Exhibit 1: Variance Analysis (Consolidated Performance)

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
<b>Total Operating Income</b>	<b>11782</b>	<b>12351</b>	<b>19812</b>	<b>-41</b>	<b>17887</b>	<b>-34</b>	Total operating income came below our estimate
Other Income	132	125	141	-6	122	8	
Total Operating expense	10441	11096	16096	-35	14912	-30	
<b>EBITDA</b>	<b>1341</b>	<b>1255</b>	<b>3716</b>	<b>-64</b>	<b>2975</b>	<b>-55</b>	EBITDA came in higher than our estimate
EBITDA Margin (%)	11.4	10.2	18.8	-737 bps	16.6	-525 bps	EBITDA margin came in higher than our estimate
Depreciation	1047	1125	1026	2	1108	-6	
Interest	1016	1025	1042	-2	1036	-2	
Exceptional Item	0	0	0	0	805	NA	
PBT	-590	-770	1789	PL	148	PL	
Tax Outgo	-61	-194	762	NA	-69	NA	
PAT	-529	-576	1027	PL	217	PL	
Minority interest, share of associate & extraordinary item	-53	-15	-19	179	-29	83	
<b>PAT for the Group</b>	<b>-582</b>	<b>-591</b>	<b>1008</b>	<b>PL</b>	<b>188</b>	<b>PL</b>	Net loss came in largely in line with our estimate
<b>Key Metrics</b>							
Standalone Steel Sales (MT)	2.8	2.7	3.8	-26	3.7	-24	Sales volume came in line with our estimate
Adj Standalone EBITDA/tonne (₹)	5104	5250	9936	-49	8703	-41	EBITDA/tonne came largely in line with our estimate

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	67461	70834	5.0	100071	100493	0.4	Upward revise estimate for FY21E and FY22E
EBITDA	8801	9489	7.8	16399	16779	2.3	
EBITDA Margin (%)	13.0	13.4	35 bps	16	17	31 bps	
EBITDA (₹/tonne)	6500	6750	3.8	8250	8500	3.0	
PAT	141	808	473.0	4901	5368	9.5	
EPS (₹)	0.6	3.3	473.0	20.3	22.2	9.5	

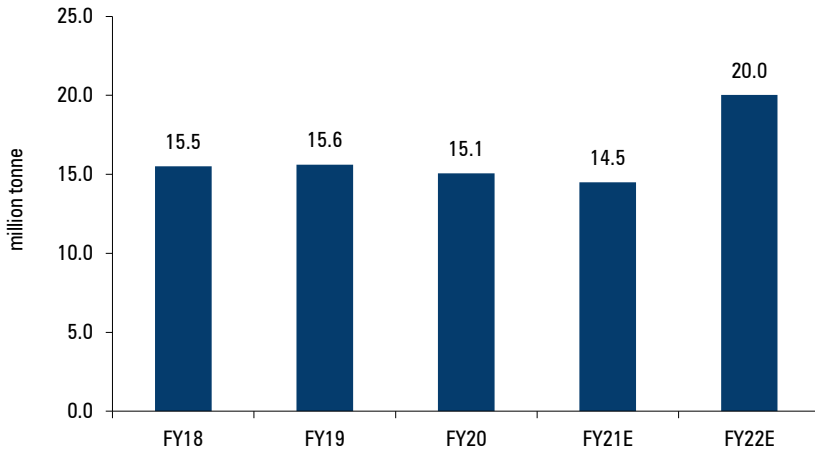
Source: Company, ICICI Direct Research

## Conference Call highlights

- During the quarter, ~57% of overall volumes was exported (~1.58 million tonnes was exported). The management expects the share of exports to reduce as domestic demand picks up in coming quarters
- The Vijaynagar plant has returned to normalcy for its operations and is inching towards ~90% capacity utilisation levels
- During July 2020, JSW Steel took a modest price hike. The company is likely to take another price hike in August 2020 as currently domestic prices are at a discount to landed prices
- Coking coal prices during Q1FY21 were at ~US\$141-142/tonne (on a CFR basis). Prices are expected to come down by ~US\$20-25/tonne in Q2FY21. However, iron ore prices have increased by ₹ 200/tonne and are expected to see an impact during Q2FY21
- With respect to standalone operations, JSW Steel's net gearing (net debt to equity) was at 1.26x at the end of Q1FY21 (vs. 1.23x at the end of Q4FY20). Net debt to EBITDA was at 4.77x at the end of Q1FY21 (vs. 3.78x at the end of Q4FY20)
- With respect to consolidated operations, consolidated net gearing was at 1.54x at the end of Q1FY21 (vs. 1.48x at the end of Q4FY20) and net debt to EBITDA was at 5.74x at the end of Q1FY21 (vs. 4.50x at the end of Q4FY20)
- Consolidated net debt has increased from ₹ 53473 crore at the end of Q4FY20 to ₹ 54527 crore at the end of Q1FY21, indicating an increase of ₹ 1054 crore sequentially. The increase in net debt was primarily on account of ₹ 1290 crore upfront payment as advances for four mines acquired in Odisha. Additionally, the company has also incurred a mining capex of ₹ 817 crore. The company generated positive cash flow during Q1FY21
- During the quarter, Indian subsidiaries had a positive EBITDA contribution of ~₹ 160 crore while EBITDA level losses from overseas operations were at ~₹ 247 crore. The management is aiming to reduce losses from overseas operations
- JSW Steel was declared the preferred bidder for four iron ore mines in Odisha, in the auctions held in February 2020, with cumulative iron ore reserves of ~1100 MT. The four mining blocks are: - Nuagaon, Narayanposhi, Jajang and Ganua. JSW Steel has signed the Mine Development and Production agreements for all four blocks and executed the lease deeds with the Odisha Government after complying with all regulatory aspects. The company has also commenced mining operations at all the above said blocks from July 1, 2020, wherein despatches of iron ore have recently started
- For FY21, JSW Steel is targeting captive iron ore production of ~7-8 MT from Karnataka and ~17.3 MT from Odisha. On an aggregate basis, for FY21, JSW Steel's captive iron ore production is expected to be in the range of ~24-25 MT

## Financial story in charts

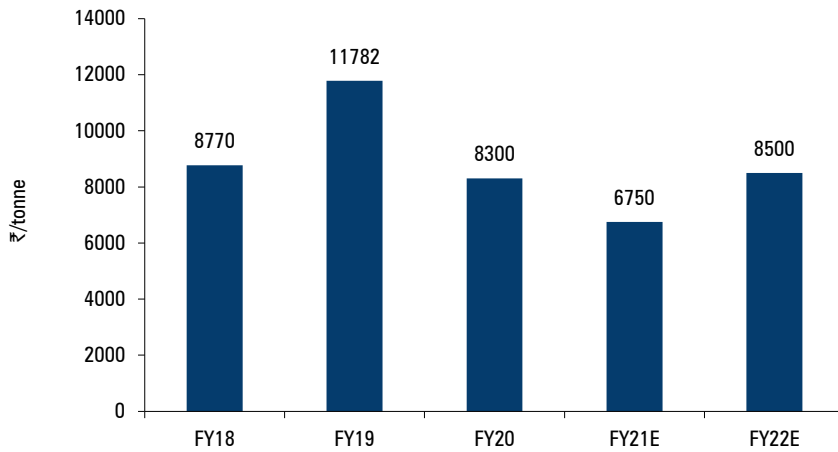
Exhibit 3: Trend in sales volumes



We model sales volume of 14.5 MT for FY21E and 20.0 MT for FY22E

Source: Company, ICICI Direct Research

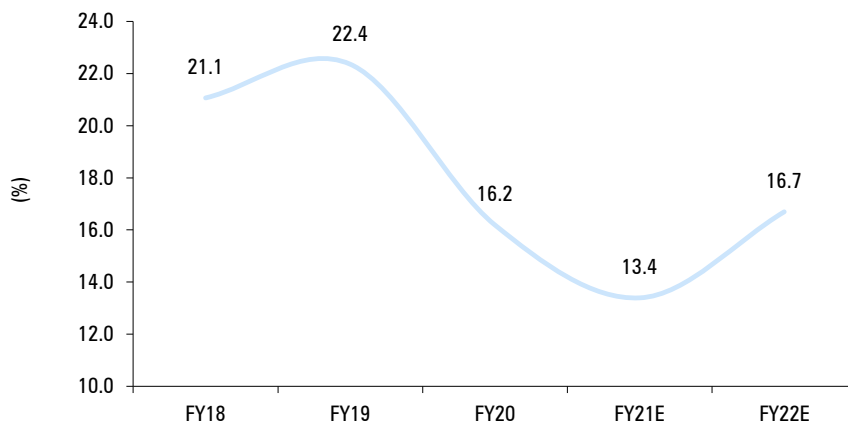
Exhibit 4: Trend in EBITDA/tonne margin level



We model EBITDA/tonne of ₹ 6750/tonne for FY21E and ₹ 8500/tonne for FY22E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in consolidated EBITDA margin (in %)



Over the next couple of years, we expect consolidated EBITDA margin at ~13.4% for FY21E and ~16.7% for FY22E

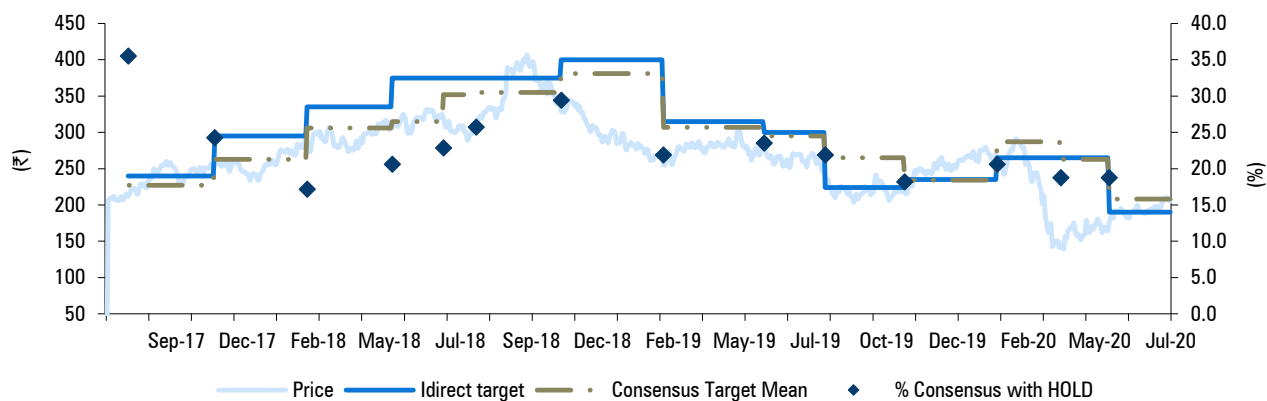
Source: Company, ICICI Direct Research

**Exhibit 6: Valuation**

	<b>Sales (₹ Crore)</b>	<b>Growth (% YoY)</b>	<b>EPS (₹)</b>	<b>Growth (% YoY)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>P/ BV (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
FY18	70,225	26.3	25.3	76.3	8.1	5.8	1.8	21.8	17.9
FY19	84,757	20.7	31.3	23.6	6.6	5.0	1.4	21.7	17.6
FY20E	73,326	-13.5	19.5	-37.5	10.5	8.9	1.3	12.7	7.2
FY21E	70,834	-3.4	3.3	-82.9	61.3	11.7	1.3	2.1	4.5
FY22E	100,493	41.9	22.2	564.4	9.2	6.5	1.2	12.5	10.6

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing	% O/S	Position (m)	Change (m)
1	JSW INVESTMENTS PVT	31-03-2020	20.2	332.5	0.0
2	INDUSGLOBE MULTIVENT	31-03-2020	15.6	256.0	0.0
3	GLEBE TRADING PRIVAT	31-03-2020	8.9	145.3	0.0
4	JSL LTD	31-03-2020	8.9	145.3	0.0
5	VIRTUOUS TRADECORP P	31-03-2020	5.2	85.6	0.0
6	DANTA ENTERPRISES PV	31-03-2020	5.2	85.6	0.0
7	JSW STEEL LTD	31-03-2020	5.2	85.4	0.0
8	LIFE INSURANCE CORP	31-03-2020	4.9	80.5	0.0
9	SBI FUNDS MANAGEMENT	30-06-2020	1.5	25.2	5.9
10	Jindal Tarini	28-05-2018	1.5	25.0	0.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20
Promoter	42.3	42.7	43.1
Others	57.7	57.3	56.9
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Total operating Income</b>	<b>84,757</b>	<b>73,326</b>	<b>70,834</b>	<b>100,493</b>
Growth (%)	21	-13	-3	42
Total Operating Expenditure	65805	61453	61345	83714
<b>EBITDA</b>	<b>18,952</b>	<b>11,873</b>	<b>9,489</b>	<b>16,779</b>
EBITDA Margin (%)	22.4	16.2	13.4	16.7
Depreciation	4,041	4,246	4,751	5,174
Interest	3,917	4,265	4,248	5,097
Other Income	204	546	650	700
PBT	11,198	3,908	1,140	7,207
Exceptional Item	-30	-805	0	0
Total Tax	3,644	-906	287	1,814
Reported PAT Before MI	7,524	4,009	853	5,393
Profit/(loss)-JV/MI/Associat	0	-90	-45	-25
<b>Reported PAT After MI</b>	<b>7,524</b>	<b>3,919</b>	<b>808</b>	<b>5,368</b>
Growth (%)	23	-48	-79	564
<b>Adj PAT after MI</b>	<b>7,554</b>	<b>4,724</b>	<b>808</b>	<b>5,368</b>
Adj 'EPS (₹)	31.3	19.5	3.3	22.2

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Share Capital	242	242	242	242
Reserve and Surplus	34,553	37,062	37,627	42,754
Total Shareholders funds	34,795	37,303	37,869	42,995
Total Debt	52,238	69,015	66,915	66,315
Deferred Tax Liability	3,894	1,677	1,677	1,677
Minority Interest / Others	4,561	3,309	3,359	3,409
<b>Total Liabilities</b>	<b>95,488</b>	<b>111,304</b>	<b>109,820</b>	<b>114,396</b>
<b>Assets</b>				
Gross Block	101,698	101,808	125,108	133,608
Less: Acc Depreciation	38,705	42,951	47,702	52,876
Net Block	62,993	58,857	77,406	80,732
Capital WIP	11,540	26,857	12,057	12,257
Total Fixed Assets	74,533	85,714	89,463	92,989
Investments	1,894	4,730	4,730	4,730
Inventory	14,548	13,864	15,895	21,235
Debtors	7,160	4,505	4,852	6,883
Loans and Advances	4,897	4,809	4,609	4,409
Other Current Assets	5,578	6,195	6,395	6,595
Cash	6,187	12,707	5,385	6,625
Total Current Assets	38,370	42,080	37,135	45,748
Current Liabilities	19,292	21,059	21,347	28,909
Provisions	134	161	161	161
Total Current Liabilities	19,426	21,220	21,508	29,070
Net Current Assets	18,944	20,860	15,627	16,678
Deferred tax Assets (net)	117	0	0	0
<b>Application of Funds</b>	<b>95,488</b>	<b>111,304</b>	<b>109,820</b>	<b>114,396</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Profit after Tax</b>	<b>7,524</b>	<b>3,919</b>	<b>808</b>	<b>5,368</b>
Add: Depreciation	4,041	4,246	4,751	5,174
(Inc)/dec in Current Asset	-6,543	2,810	-2,377	-7,372
(Inc)/dec in CL&Provisions	-3,242	1,794	288	7,562
Others	1,221	-2,100	0	0
<b>CF from operating activitie</b>	<b>3,001</b>	<b>10,669</b>	<b>3,470</b>	<b>10,733</b>
(Inc)/dec in Investments	-425	-2,836	0	0
(Inc)/dec in Fixed Assets	-14,776	-10,200	-8,500	-8,700
Others	3,832	-6,479	50	50
<b>CF from investing activitie</b>	<b>-11,369</b>	<b>-19,515</b>	<b>-8,450</b>	<b>-8,650</b>
Issue/(Buy back) of Equity	-1	0	0	0
(Inc)/dec in loan funds	14,219	16,777	-2,100	-600
Dividend paid & dividend tax	-1,472	-732	-732	-732
(Inc)/dec in Sec. premium	746	-679	490	490
Others	0	0	0	0
<b>CF from financing activitie</b>	<b>13,492</b>	<b>15,366</b>	<b>-2,342</b>	<b>-842</b>
Net Cash flow	5,124	6,520	-7,322	1,241
Opening Cash	1,063	6,187	12,707	5,385
<b>Closing Cash</b>	<b>6,187</b>	<b>12,707</b>	<b>5,385</b>	<b>6,625</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
Adj EPS	31.3	19.5	3.3	22.2
Cash EPS	47.8	33.8	23.0	43.6
BV	143.9	154.3	156.7	177.9
DPS	4.1	2.0	2.0	2.0
Cash Per Share	25.6	52.6	22.3	27.4
<b>Operating Ratios (%)</b>				
EBITDA Margin	22.4	16.2	13.4	16.7
PBT / Total Operating income	13.2	5.3	1.6	7.2
Adj PAT Margin	8.9	6.4	1.1	5.3
Inventory days	123	131	125	125
Debtor days	31	22	25	25
Creditor days	83	105	110	105
<b>Return Ratios (%)</b>				
Adj RoE	21.7	12.7	2.1	12.5
Adj RoCE	17.6	7.2	4.5	10.6
RoIC	18.4	8.1	4.8	11.3
<b>Valuation Ratios (x)</b>				
P/E	6.6	10.5	61.3	9.2
EV / EBITDA	5.0	8.9	11.7	6.5
EV / Net Sales	1.1	1.4	1.6	1.1
Market Cap / Sales	0.6	0.7	0.7	0.5
Price to Book Value	1.4	1.3	1.3	1.2
<b>Solvency Ratios</b>				
Net Debt/EBITDA	2.4	4.7	6.5	3.6
Net Debt / Equity	1.3	1.5	1.6	1.4
Current Ratio	2.0	2.0	1.7	1.6
Quick Ratio	1.2	1.3	1.0	0.8

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)			
	(₹)	(₹) Rating		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Coal India	130	150	Hold	80882	27.1	22.2	22.9	5.0	6.1	5.9	2.8	4.4	4.5	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	157	160	Hold	34942	18.2	8.5	20.4	8.3	17.9	7.5	4.9	6.9	5.1	7.8	4.8	7.2	7.0	3.0	6.7
Hind Zinc	207	195	Hold	87464	16.1	12.4	18.8	11.8	15.3	10.1	6.6	8.2	4.8	20.8	20.0	26.0	16.9	14.5	19.0
JSW Steel	205	210	Hold	49553	19.5	3.3	22.2	10.5	61.3	9.2	8.9	11.7	6.5	7.2	4.5	10.6	12.7	2.1	12.5
NMDC	84	90	Hold	25567	11.8	9.4	10.8	7.1	8.9	7.7	4.2	6.3	4.7	20.3	11.6	12.9	13.1	9.1	9.9
Ratnamani	1033	1200	Buy	4798	65.8	49.5	66.0	15.2	20.2	15.1	11.1	14.3	10.1	22.2	14.8	19.8	18.0	12.3	14.4
Graphite Ind.	168	200	Hold	3473	2.0	24.0	33.0	85.1	8.3	5.9	-21.8	2.8	1.5	-2.6	9.2	13.3	1.0	9.5	12.6
Tata Steel	350	350	Hold	42187	41.4	-16.3	46.9	7.9	NA	7.0	8.5	12.0	5.7	5.0	2.4	8.2	6.4	-2.6	6.6
HEG	784	900	Hold	3136	14.0	86.0	150.0	63.7	10.2	5.9	-409.5	6.3	3.6	1.6	12.0	19.8	1.6	9.2	14.6

Source: Company, ICICI Direct Research



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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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