

JSW Steel

Refer to important disclosures at the end of this report

Approaching peak pricing; maintain Sell

CMP: Rs 321

as of (October 25, 2020)

TP: Rs 256 (▲)

12 months

Rating: SELL (■)

Upside: (20.3) %

- JSW Steel reported better results than our and Street estimates. Strong growth in pricing, especially in Sep, has resulted in upgrades to our FY21 estimates. However, we believe a large part of the price hikes is done and do not expect prices to improve sharply now.
- The strong price hike in Q2 was driven by shortage of steel in the trade segment. With some mills taking partial shutdowns, auto sheet deliveries ramping up improvement in infra demand and continued exports, trade segment was under-served, leading to price hikes.
- In our view, the BPSL acquisition will continue to be EPS dilutive for the next few years till further investments are made to increase capacity of the plant to 4mt from 2.6mt. In the near term, captive iron ore cost will likely restrict EBITDA expansion due to price hikes.
- We raise FY21 EBITDA estimate by 29% but leave FY22E largely unchanged. We believe strong cash flows will result in higher capex as JSW completes pending projects. High leverage with impending BPSL acquisition remains our key concern. Maintain Sell with a revised TP of Rs256 (up from Rs161), driven by higher multiple (6.5x vs. 5.5x earlier) as steel remains strong but substantial price hikes are now difficult.
- Iron ore costs to remain elevated in the near term:** We believe that being a bulk buyer of domestic ore from merchant mines in Odisha in the pre-auction period, JSW was able to fetch discounted deals over market price. However, with most of the merchant sellers out and balance focusing on exports, JSW will lose the price advantage of merchant iron ore. In addition, the acquisition of mines at 105% premium on average will ensure its pricing remains above market rates in the near term, denting EBITDA margins. We expect iron ore to remain high on tight domestic availability.
- BPSL acquisition is likely to be consummated in FY21:** We believe that JSW is likely to complete the acquisition of BPSL in FY21. However, being a strategic investor and the acquisition being of a large magnitude of Rs197bn, we would prefer consolidation of the target with JSW even though JSW might structure the deal to avoid consolidation till it turns around BPSL. We note that none of the acquisitions have reported positive PAT barring Monnet, which only turned the corner supported by a very strong pricing environment and might slip into red if prices are corrected.
- Near peak prices at near peak valuation:** The recent rally in JSW is partly fueled by the slump in premium HCC prices. We note that JSW's coal blend is skewed toward lower-grade coals where prices have not corrected significantly. We expect coal prices to rebound and domestic steel prices to correct in Q4 on higher imports. The gap between export and domestic prices has also widened to c.Rs4,500/t. Maintain Sell with a revised TP of Rs256. Key risk is higher-than-estimated steel prices.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Metals & Mining \(Page 12\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	847,570	733,260	714,767	935,125	1,013,267
EBITDA	189,520	118,730	140,452	180,397	195,580
EBITDA Margin (%)	22.4	16.2	19.6	19.3	19.3
APAT	75,240	47,240	29,315	50,962	51,406
EPS (Rs)	31.1	19.5	12.1	21.1	21.3
EPS (% chg)	18.8	(37.2)	(37.9)	73.8	0.9
ROE (%)	24.0	13.2	7.7	12.3	11.1
P/E (x)	10.3	16.4	26.5	15.2	15.1
EV/EBITDA (x)	6.2	10.9	9.4	7.4	6.9
P/BV (x)	2.2	2.1	2.0	1.8	1.6

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	34/(6)
Target Price change (%)	59.0
Target Period (Months)	12
Previous Reco	SELL

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	12.1	21.1
Consensus	9.3	22.9
Mean Consensus TP (12M)	Rs 257	

Stock Details

Bloomberg Code	JSTL IN
Face Value (Rs)	1
Shares outstanding (mn)	2,417
52 Week H/L	327 / 133
M Cap (Rs bn/USD bn)	776 / 10.54
Daily Avg Volume (nos.)	10,012,470
Daily Avg Turnover (US\$ mn)	37.0

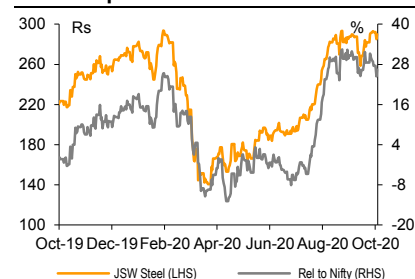
Shareholding Pattern Sep '20

Promoters	44.1%
FIIIs	13.3%
DIIIs	5.8%
Public and Others	36.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	20	53	101	44
Rel. to Nifty	12	44	57	40

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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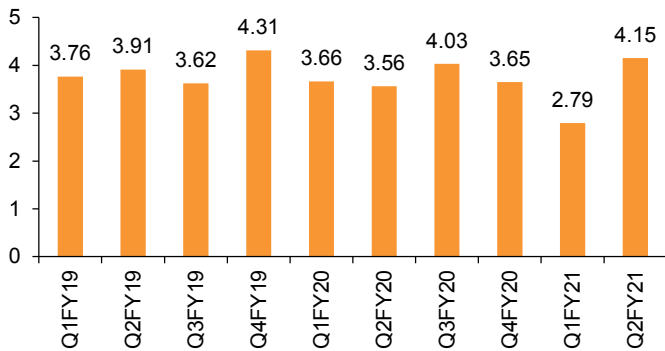
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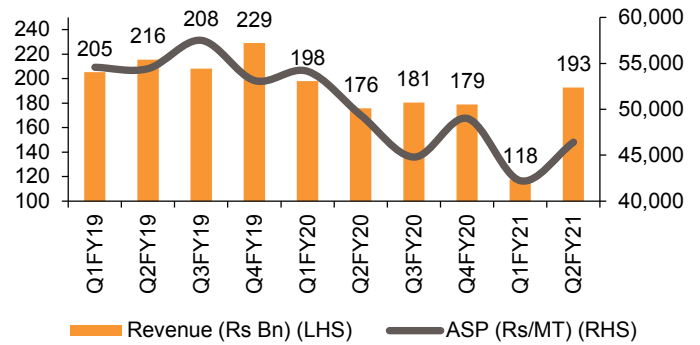
Story in Charts

Exhibit 1: Consolidated sales volume (mt) recovered post drop in Q1FY21



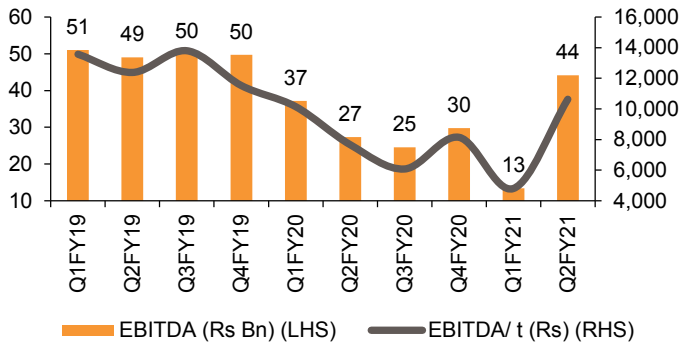
Source: Company, Emkay Research

Exhibit 2: Revenue (Rs bn) and ASP also recovered in Q2FY21



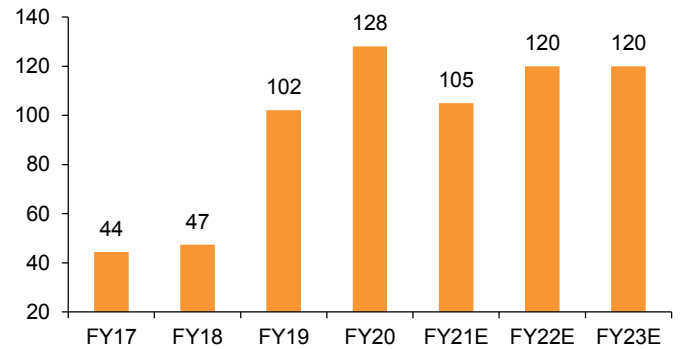
Source: Company, Emkay Research

Exhibit 3: EBITDA has sharply risen driven by steel price hikes



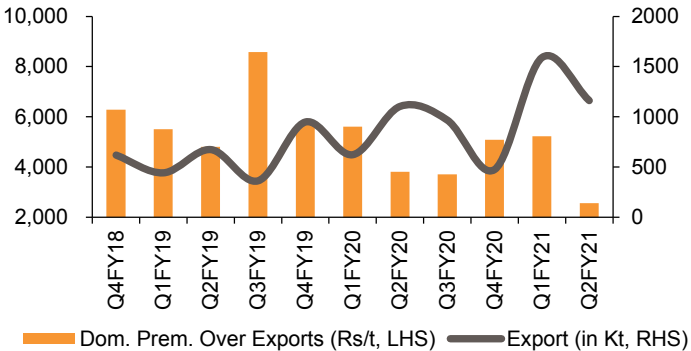
Source: Company, Emkay Research

Exhibit 4: Capex (Rs bn) to consume operational cash flows



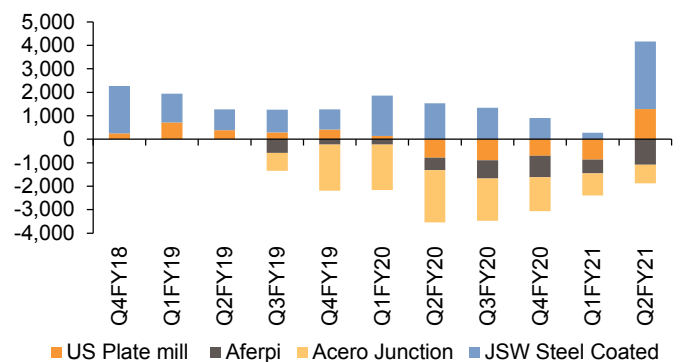
Source: Company, Emkay Research

Exhibit 5: Domestic premium over export prices has risen post Q2



Source: Company, Emkay Research

Exhibit 6: Positive EBITDA (Rs mn) posted by Indian subsidiary



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q2FY21)

	Actual	Estimates		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Total Revenue (Rs bn)	192.64	202.35	182.62	-5%	5%	In line
EBITDA (Rs bn)	44.14	37.80	33.22	17%	33%	Higher due to lower-than-estimated RM, fuel and staff cost
<i>EBITDA Margin (%)</i>	<i>23%</i>	<i>19%</i>	<i>18%</i>	<i>423 bps</i>	<i>472 bps</i>	
Net profit (Rs bn)	15.95	11.62	9.18	37%	74%	EBITDA beat leading to PAT beat

Source: Company, Bloomberg, Emkay Research

Exhibit 8: Quarterly Financials (Standalone)

(Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (abs)	YoY (%)	QoQ (abs)	QoQ (%)	H1FY21	H1FY20	YoY (abs)	YoY (%)
Sales (Mt)	3.60	4.03	3.70	2.80	4.12	0.5	14%	1.3	47%	6.9	7.4	-0.43	-6%
Net sales	147,520	151,990	150,200	100,180	164,870	17,350	12%	64,690	65%	265,050	320,960	-55,910	-17%
Other Op. Income	7,680	5,680	2,570	2,750	3,100	-4,580	-60%	350	13%	5,850	11,220	-5,370	-48%
Total Revenue	155,200	157,670	152,770	102,930	167,970	12,770	8%	65,040	63%	270,900	332,180	-61,280	-18%
RM Consumed	83,470	76,260	73,580	57,150	70,750	-12,720	-15%	13,600	24%	127,900	180,890	-52,990	-29%
Stock purchases	100	910	700	60	450	350	350%	390	650%	510	2,590	-2,080	-80%
Inventory movement	(60)	9,430	(1,530)	(2,270)	9,760	9,820	NA	12,030	NA	7,490	-8,170	15,660	NA
Total RM Cost	83,510	86,600	72,750	54,940	80,960	-2,550	-3%	26,020	47%	135,900	175,310	-39,410	-22%
Employee Costs	3,300	3,740	3,940	3,540	3,630	330	10%	90	3%	7,170	7,280	-110	-2%
Power cost	13,540	13,070	13,370	11,010	12,310	-1,230	-9%	1,300	12%	23,320	28,890	-5,570	-19%
Other Expenses	26,890	27,590	30,510	19,150	29,310	2,420	9%	10,160	53%	48,460	54,420	-5,960	-11%
Total Exp.	127,240	131,000	120,570	88,640	126,210	-1,030	-1%	37,570	42%	214,850	265,900	-51,050	-19%
EBITDA	27,960	26,670	32,200	14,290	41,760	13,800	49%	27,470	192%	56,050	66,280	-10,230	-15%
EBITDA/t	7,767	6,618	8,703	5,104	10,136	2,369	31%	5,032	99%	8,100	9,018	-918	-10%
Depreciation	8,740	8,930	9,290	8,670	9,240	500	6%	570	7%	17,910	17,000	910	5%
EBIT	19,220	17,740	22,910	5,620	32,520	13,300	69%	26,900	479%	38,140	49,280	-11,140	-23%
Other Income	1,880	1,350	1,460	1,540	1,510	-370	-20%	-30	-2%	3,050	3,470	-420	-12%
Interest	10,750	9,880	9,540	9,330	8,850	-1,900	-18%	-480	-5%	18,180	20,800	-2,620	-13%
Exceptionals			13,090			0		0		0	0	0	
PBT	10,350	9,210	1,740	(2,170)	25,180	14,830	143%	27,350	NA	23,010	31,950	-8,940	-28%
Tax	(18,820)	2,300	(680)	(710)	8,260	27,080	NA	8,970	NA	7,550	-11,610	19,160	NA
PAT	29,170	6,910	2,420	(1,460)	16,920	-12,250	-42%	18,380	NA	15,460	43,560	-28,100	-65%

Source: Company, Emkay Research

Exhibit 9: Margins Standalone

Margins (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (bps)	QoQ (bps)	H1FY21	H1FY20	(bps)
EBIDTA	18%	17%	21%	14%	25%	685 bps	1098 bps	21%	20%	74 bps
EBIT	12%	11%	15%	5%	19%	698 bps	1390 bps	14%	15%	-76 bps
EBT	7%	6%	1%	-2%	15%	832 bps	1710 bps	8%	10%	-112 bps
PAT	19%	4%	2%	-1%	10%	-872 bps	1149 bps	6%	13%	-741 bps
Effective Tax rate	-182%	25%	-39%	33%	33%	21464 bps	8 bps	33%	-36%	6915 bps

Source: Company, Emkay Research

Exhibit 10: Quarterly Financials Consolidated

Rs mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (abs)	YoY (%)	QoQ (abs)	QoQ (%)	H1FY21	H1FY20	YoY (abs)	YoY (%)
Production (mt)	3.84	4.02	3.97	2.96	3.85	0.01	0%	0.89	30%	6.81	8.08	-1.27	-16%
Sales (mt)	3.56	4.03	3.65	2.79	4.15	0.59	17%	1.36	49%	6.94	7.22	-0.28	-4%
Net Sales	167,370	174,160	175,560	114,540	186,620	19,250	12%	72,080	63%	301,160	361,440	-60,280	-17%
Other Op. Income	8,350	6,390	3,310	3,280	6,020	-2,330	-28%	2,740	84%	9,300	12,400	-3,100	-25%
Revenue	175,720	180,550	178,870	117,820	192,640	16,920	10%	74,820	64%	310,460	373,840	-63,380	-17%
RM purchases	94,880	91,770	88,100	64,710	83,200	-11,680	-12%	18,490	29%	147,910	208,780	-60,870	-29%
Stock-in-trade	50	160	890	10	330	280	560%	320	3200%	340	300	40	13%
Chg. in stock	(830)	8,600	60	(1,480)	10,730	11,560	-1393%	12,210	NA	9,250	-11,360	20,610	NA
Total RM cost	94,100	100,530	89,050	63,240	94,260	160	0%	31,020	49%	157,500	197,720	-40,220	-20%
Staff Expense	6,530	7,090	7,180	6,250	6,020	-510	-8%	-230	-4%	12,270	14,120	-1,850	-13%
Power	15,490	14,930	15,280	12,540	14,050	-1,440	-9%	1,510	12%	26,590	32,510	-5,920	-18%
Other Exp.	32,290	33,490	37,610	22,380	34,170	1,880	6%	11,790	53%	56,550	65,020	-8,470	-13%
Total Exp.	148,410	156,040	149,120	104,410	148,500	90	0%	44,090	42%	252,910	309,370	-56,460	-18%
EBITDA	27,310	24,510	29,750	13,410	44,140	16,830	62%	30,730	229%	57,550	64,470	-6,920	-11%
EBITDA/t	7,671	6,082	8,151	4,806	10,636	2,965	39%	5,830	121%	8,293	8,929	-637	-7%
One Offs	(4,660)	(2,500)				4,660	-100%	0		0	-4,660	4,660	
Adjusted EBITDA	22,650	22,010	29,750	13,410	44,140	21,490	95%	30,730	229%	57,550	32,803	24,747	75%
Dep.	10,570	10,550	11,080	10,470	11,490	920	9%	1,020	10%	21,960	20,830	1,130	5%
EBIT	16,740	13,960	18,670	2,940	32,650	15,910	95%	29,710	1011%	35,590	43,640	-8,050	-18%
Other Income	1,560	1,270	1,220	1,320	1,520	-40	-3%	200	15%	2,840	2,970	-130	-4%
Interest	11,270	10,600	10,360	10,160	9,590	-1,680	-15%	-570	-6%	19,750	21,690	-1,940	-9%
(Profit)/loss from JV's	(150)	(270)	(290)	(530)	470	620	-413%	1,000	NA	-60	-340	280	NA
Extra. items	0	0	8,050	0	0	0		0		0	0	0	
PBT	6,880	4,360	1,190	(6,430)	25,050	18,170	264%	31,480	NA	18,620	24,580	-5,960	-24%
Total Tax	(18,480)	2,490	(690)	(610)	9,100	27,580	NA	9,710	NA	8,490	-10,860	19,350	-178%
PAT	25,360	1,870	1,880	(5,820)	15,950	-9,410	-37%	21,770	NA	10,130	35,440	-25,310	-71%

Source: Company, Emkay Research

Exhibit 11: Margins Consolidated

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (bps)	QoQ (bps)	H1FY21	H1FY20	YoY (bps)
EBIDTA	16%	14%	17%	11%	23%	737 bps	1153 bps	19%	17%	-129 bps
EBIT	10%	8%	10%	2%	17%	742 bps	1445 bps	11%	12%	21 bps
EBT	4%	2%	1%	-5%	13%	909 bps	1846 bps	6%	7%	58 bps
PAT	14%	1%	1%	-5%	8%	-615 bps	1322 bps	3%	9%	622 bps
Effective Tax rate %	-269%	57%	-58%	9%	36%	30493 bps	2684 bps	46%	-44%	-8978 bps

Source: Company, Emkay Research

Highlights of conference call

- **World Steel demand driven by China:** USD550bn targeted stimulus by the Chinese government has pushed up demand for steel in a manner which has not only balanced out demand-supply situation after the pandemic but has actually led to a shortage of steel globally, driving prices across regions.
- **Domestic demand has also improved:** Domestic demand has rebounded sharply with exports down 28% qoq as domestic prices outpaced export NSR.
- **Q3 to remain in line with Q2 earnings:** JSW is likely to maintain Q2 Acute margins in Q3 as well. Coal costs have been volatile in this quarter and iron ore has steadily risen. Q2 consolidated EBITDA margin stood at Rs10,136/t.
- **Shortage of iron ore to keep ore prices high:** There is an acute shortage of iron ore in the country. Had there been no shortage, the company would have improved its capacity utilization beyond 86% which it achieved in Q2. The company remains concerned about exports of pellets and iron ore. It is not comfortable importing iron ore at current prices.
- **Share of captive iron ore will continue to rise:** JSW consumed 27% of captive iron ore in the current quarter. It is likely to mine 16-17mt from its Odisha mines, needed to meet the minimum 80% output stipulated. Improving share of own mines will keep its iron ore costs elevated.
- **Cost of iron ore will also continue to rise:** JSW's captive average premium is around 105% of the IBM prices. In the near term, its cost will be at least 5% higher than the IBM price plus mining cost. However, compared to its procurement cost, we believe the near-term iron ore cost will be higher than 5% + mining cost. In the medium term, the company will set up a slurry pipeline to reduce cost of transporting iron ore.
- **Dolvi 5mt expansion commissioning in Q4:** The 5mt expansion will be commissioned in Q4 and other value add/cost-savings projects are as per the Q1 guidance.
- **BPSL acquisition in FY21:** JSW believes that if the SC orders the clearance of BPSL assets, it will complete the acquisition in H2 along with Asian Color Coated acquisition. This will raise the capacity of the company from current 18mt to 26mt (5mt being Dolvi expansion). The next hearing in the BPSL matter is slated for 3rd Nov.
- **Net debt to continue to increase:** Net debt for the quarter stood at Rs529bn. Revenue Acceptance was USD1,098mn and capital acceptance was USD441mn as of 30th Sep., i.e., Rs114bn. Adjusting for the acceptances, total net debt stands at Rs643bn. In addition, the company has Rs197bn acquisition pending which it plans to structure in a manner to ring-fence the parent balance sheet from recourse. It plans to raise debt on BPSL and take a minority stake in the entire structure to the effect that it will not be required to consolidate the asset until it turns around.

Exhibit 12: Key per-ton figures on consolidated basis

Rs/t	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Saleable Steel (mt)	3.56	4.03	3.65	2.79	4.15	17%	49%
Blended Realization	47,014	43,216	48,099	41,054	44,969	-4%	10%
EBITDA/t	7,671	6,082	8,151	4,806	10,636	39%	121%
RMC/t	26,433	24,945	24,397	22,667	22,713	-14%	0%

Source: Company, Emkay Research

Exhibit 13: Plate & Pipe Mill performance

Particulars	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY21	H1FY20	YoY (%)
Production (nt)										
Plate Mill	58,106	70,479	63,528	57,035	54,137	-7%	-5%	111,172	141,622	-22%
Pipe Mill	15,746	14,669	15,193	4,175	0	-100%	-100%	4,175	38,839	-89%
Sales (nt)										
Plate Mill	53,333	52,749	55,274	53,210	51,719	-3%	-3%	104,929	110,365	-5%
Pipe Mill	7,020	11,328	27,534	4,611	447	-94%	-90%	5,058	30,215	-83%
Financials (US\$ mn)										
Turnover	59.1	64	89.6	46.4	35.9	-39%	-23%	82.2	157.7	-48%
EBITDA	-11.2	-12.6	-9.9	-11.4	17.24	-254%	-251%	5.8	-9.2	-163%

Source: Company, Emkay Research

Exhibit 14: JSW Coated Products

Particulars	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY21	H1FY20	YoY (%)
Production volume (mt)	0.42	0.47	0.44	0.30	0.51	21%	70%	0.81	0.86	-6%
Sales Volume (mt)	0.43	0.52	0.47	0.33	0.61	42%	85%	0.94	0.88	7%
Net Sales (Rs mn)	27,880	29,820	29,150	20,490	37,820	36%	85%	58,310	57,780	1%
EBITDA (Rs mn)	1,530	1,340	910	280	2,880	88%	929%	3,160	3,250	-3%
Realization (Rs/tonne)	64,837	57,346	62,021	62,091	62,000	-4%	0%	62,032	65,659	-6%
EBITDA/tonne (Rs)	3,558	2,577	1,936	848	4,721	33%	456%	3,362	3,693	-9%

Source: Company, Emkay Research

Exhibit 15: Sales breakdown

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY21	H1FY20	YoY (%)
Sales volume (Mt)	3.56	4.03	3.65	2.79	4.15	17%	49%	6.9	7.2	-4%
Total exports Vol (kt)	1,104	967	475	1,590	1,162	5%	-27%	2,752	1,726	59%
Share of Exports	31%	24%	13%	57%	28%			66%	31%	
Total Domestic Vol (kt)	2,456	3,063	3,176	1,200	2,988	22%	149%	4,188	5,494	-24%
Share of domestic	69%	76%	87%	43%	72%			34%	69%	
Total Automotive Vol (kt)	427	443	402	195	540	26%	176%	735	940	-22%
Share of Automotive	12%	11%	11%	7%	13%			11%	13%	
Total OEMs Vol (kt)	2,029	2,257	2,227	1,869	2,407	19%	29%	4,276	4,042	6%
Share of OEM	57%	56%	61%	67%	58%			62%	56%	
Total Retail Vol (kt)	1,104	1,330	1,022	725	1,204	9%	66%	1,929	2,238	-14%
Share of Retail	31%	33%	28%	26%	29%			28%	31%	

Source: Company, Emkay Research

Exhibit 16: EBITDA breakdown (Rs mn except otherwise mentioned)

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Reported Consolidated EBITDA	27,310	24,510	29,750	13,410	44,140	62%	229%
Adjusted EBITDA	22,650	22,010	29,750	13,410	41,860	85%	212%
Reported EBITDA/t	7,671	6,082	8,151	4,806	10,636	39%	121%
Adjusted EBITDA/t	6,362	5,462	8,151	4,806	10,087	59%	110%
Less; US Plate mill - \$ mn	-11.2	-12.6	-9.9	-11.4	17.2	-254%	-251%
Less; Aferpi - € mn	-6.9	-10.0	-10.9	-7.0	-12.6	82%	80%
Less: Acero Junction - \$ mn	-31.6	-25.2	-20.2	-12.5	-10.5	-67%	-16%
JSW Steel Coated	1,530	1,340	910	280	2,880	88%	929%
Consolidated India EBITDA	29,317	26,646	31,909	15,532	41,855	43%	169%
Consolidated India EBITDA/t	8,235	6,612	8,742	5,567	10,085	22%	81%
Adjusted India EBITDA	26,187	25,486	32,819	15,812	42,455	62%	168%
Adjusted India EBITDA/t	7,356	6,324	8,992	5,667	10,230	39%	81%
Subsidiaries EBITDA	-2,007	-2,136	-2,159	-2,122	2,285	-214%	-208%

Source: Company, Emkay Research

Exhibit 17: Change in estimates

	FY21E			FY22E			FY23E		
	Old	New	%Change	Old	New	%Change	Old	New	%Change
Sales Volume (mt)	14.35	15.02	4.6%	18.83	19.41	3.1%	20.17	19.88	-1.4%
ASP (Rs/t)	45,076	46,604	3.4%	44,347	47,296	6.6%	47,819	50,019	4.6%
Revenue (Rs mn)	661,899	714,767	8.0%	852,141	935,125	9.7%	983,382	1,013,267	3.0%
EBITDA (Rs mn)	109,055	140,452	28.8%	184,337	180,397	-2.1%	223,977	195,580	-12.7%
EBITDA/tonne (Rs)	7,599	9,354	23.1%	9,789	9,293	-5.1%	11,106	9,839	-11.4%
Net profit (Rs mn)	21,819	29,315	34.4%	54,404	50,962	-6.3%	77,579	51,406	-33.7%
Emkay EPS	9.03	12.13	34.4%	22.51	21.08	-6.3%	32.09	21.27	-33.7%

Source: Emkay Research

Exhibit 18: Valuation

Valuation	UoM	FY 22E
EBITDA	Rs bn	180
EV/EBITDA Multiple	x	6.50
Enterprise Value	s	1,173
Cash	Rs bn	93
Less: Net Debt	Rs bn	648
Net Debt	Rs bn	555
Implied Market Cap	Rs bn	618
No. of Shares	mn	2,417
Fair Value	Rs/Share	256

Source: Emkay Research

Exhibit 19: Peer Comparison

Consensus	M.Cap	PE (x)			EV/EBITDA (x)			PB (x)			ROE (x)		
	USD bn	CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23
India													
Tata Steel*	6.53	NA	8.4	5.3	10.7	5.6	4.5	0.6	0.6	0.5	-2.52	6.7	10.1
JSW Steel*	10.52	26.5	15.2	15.1	9.4	7.4	6.9	2.0	1.8	1.6	7.7	12.3	11.1
SAIL*	2.04	43.1	2.8	2.0	9.9	5.2	4.1	0.4	0.3	0.3	0.8	11.9	14.4
JSPL	2.85	21.1	11.5		5.5	4.7		0.6	0.6		3.1	5.2	
Japan													
JFE Holdings	4.74	NA	NA	10.2	8.9	16.1	8.1	0.3	0.3	0.3	-10.9	-6.0	2.9
Nippon Steel	10.15	NA	NA	11.4	17.8	13.5	7.5	0.4	0.4	0.4	-14.6	-5.2	3.4
Kobe Steel	1.52	NA	NA	23.6	9.3	13.1	8.0	0.2	0.3	0.2	-2.4	-5.2	1.1
Korea													
POSCO	16.97	16.5	9.7	8.2	5.4	4.4	3.9	0.4	0.4	0.4	2.5	4.2	4.9
Hyundai Steel	3.77	NA	20.0	14.2	9.2	7.4	6.9	0.3	0.3	0.2	-0.6	1.3	1.7
US													
Nucor	15.06	20.5	16.8	14.3	8.8	8.2	7.2	1.4	1.4	1.3	6.8	9.0	9.1
US Steel	2.19	NA	NA	NA	NA	12.0	8.1	0.6	0.8	0.7	-35.5	-6.9	0.1
Steel Dynamics	6.80	13.2	13.7	10.6	7.8	7.9	6.4	1.6	1.4	1.4	11.9	12.2	10.6
Europe													
Arcelor Mittal	16.26	NA	12.5	7.2	7.1	4.6	3.7	0.4	0.4	0.4	-3.4	3.1	5.2
Thyssenkrupp	3.41	1.1	NA	772.7	NA	1.4	1.3	0.3	0.3	0.3	64.8	-0.3	-1.3
Voestalpine	5.32	NA	NA	17.5	8.1	10.1	6.1	0.8	0.8	0.8	-4.1	-2.1	4.3
CIS													
Evrast	7.33	9.0	7.7	7.6	5.5	5.0	4.9	5.8	3.9	3.3	60.3	70.0	57.2
MMK	5.45	9.3	5.5	5.0	4.1	3.0	3.0	1.1	1.0	1.0	9.7	15.4	17.4
NLMK	14.17	4.1	2.9	2.6	6.8	6.0	5.7	2.8	2.8	2.6	20.9	28.7	30.6
China													
Baoshan	17.76	13.0	11.1	9.7	4.8	4.3	3.8	0.6	0.6	0.6	5.0	5.5	5.9

Source: Bloomberg, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	847,570	733,260	714,767	935,125	1,013,267
Expenditure	658,050	614,530	574,315	754,728	817,688
EBITDA	189,520	118,730	140,452	180,397	195,580
Depreciation	40,410	42,460	46,000	56,000	66,500
EBIT	149,110	76,270	94,452	124,397	129,080
Other Income	2,040	5,460	5,460	5,460	5,460
Interest expenses	39,170	42,650	51,053	51,453	55,453
PBT	111,980	39,080	48,858	78,404	79,086
Tax	36,440	(9,060)	19,543	27,441	27,680
Extraordinary Items	0	(8,050)	0	0	0
Minority Int./Income from Assoc.	(300)	(900)	0	0	0
Reported Net Income	75,240	39,190	29,315	50,962	51,406
Adjusted PAT	75,240	47,240	29,315	50,962	51,406

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	3,010	3,010	3,010	3,010	3,010
Reserves & surplus	344,940	362,980	388,672	436,012	483,795
Net worth	347,950	365,990	391,682	439,022	486,805
Minority Interest	(4,500)	(5,750)	(5,750)	(5,750)	(5,750)
Loan Funds	463,439	638,165	638,165	648,165	738,165
Net deferred tax liability	37,770	16,770	16,770	16,770	16,770
Total Liabilities	844,659	1,015,175	1,040,867	1,098,207	1,235,990
Net block	626,440	619,940	638,940	737,940	771,440
Investment	70,580	64,000	64,000	64,000	64,000
Current Assets	335,550	365,690	336,050	355,657	450,552
Cash & bank balance	61,870	120,030	95,061	93,334	159,567
Other Current Assets	50,990	54,550	64,550	74,550	84,550
Current liabilities & Provision	303,311	303,025	306,692	332,960	343,572
Net current assets	32,239	62,665	29,357	22,697	106,980
Misc. exp	0	0	0	0	0
Total Assets	844,659	1,015,175	1,040,867	1,098,207	1,235,990

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	111,680	30,130	48,858	78,404	79,086
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(15,810)	16,390	8,338	4,933	(18,050)
Operating Cashflow	146,330	127,850	134,707	163,349	155,310
Capital expenditure	(102,060)	(128,100)	(105,000)	(120,000)	(120,000)
Free Cash Flow	44,270	(250)	29,707	43,349	35,310
Investments	(14,000)	(72,890)	5,000	50,000	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(114,480)	(195,860)	(100,000)	(70,000)	(120,000)
Equity Capital Raised	(1,530)	60	0	0	0
Loans Taken / (Repaid)	68,810	110,750	0	10,000	90,000
Dividend paid (incl tax)	(9,330)	(11,950)	(3,623)	(3,623)	(3,623)
Other Financing Cash Flow	(1,660)	(1,800)	0	0	0
Financing Cashflow	18,140	51,860	(54,676)	(45,076)	30,924
Net chg in cash	49,990	(16,150)	(19,969)	48,273	66,234
Opening cash position	5,820	55,810	39,660	19,691	67,964
Closing cash position	55,810	39,660	19,691	67,964	134,197

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	22.4	16.2	19.6	19.3	19.3
EBIT Margin	17.6	10.4	13.2	13.3	12.7
Effective Tax Rate	32.5	(23.2)	40.0	35.0	35.0
Net Margin	8.9	6.6	4.1	5.4	5.1
ROCE	18.1	8.8	9.7	12.1	11.5
ROE	24.0	13.2	7.7	12.3	11.1
RoIC	22.9	13.2	16.6	20.1	18.6

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	31.1	19.5	12.1	21.1	21.3
CEPS	47.8	37.1	31.2	44.3	48.8
BVPS	143.9	151.4	162.0	181.6	201.4
DPS	3.9	4.9	1.2	1.2	1.2

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	10.3	16.4	26.5	15.2	15.1
P/CEPS	6.7	8.7	10.3	7.3	6.6
P/BV	2.2	2.1	2.0	1.8	1.6
EV / Sales	1.4	1.8	1.9	1.4	1.4
EV / EBITDA	6.2	10.9	9.4	7.4	6.9
Dividend Yield (%)	1.2	1.5	0.4	0.4	0.4

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	1.2	1.4	1.4	1.3	1.2
Net Debt/EBIDTA	2.1	4.4	3.9	3.1	3.0
Working Cap Cycle (days)	(12.8)	(28.6)	(33.6)	(27.6)	(18.9)

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	17.8	(13.5)	(2.5)	30.8	8.4
EBITDA	28.1	(37.4)	18.3	28.4	8.4
EBIT	30.7	(48.8)	23.8	31.7	3.8
PAT	23.1	(47.9)	(25.2)	73.8	0.9

Quarterly (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Revenue	175,720	180,550	178,870	117,820	192,640
EBITDA	27,310	24,510	29,750	13,410	44,140
EBITDA Margin (%)	15.5	13.6	16.6	11.4	22.9
PAT	25,360	1,870	1,880	(5,820)	15,950
EPS (Rs)	10.5	0.8	0.8	(2.4)	6.6

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoters	42.4	42.3	42.7	43.1	44.1
FIIIs	17.9	17.6	17.1	15.4	13.3
DIIIs	3.8	4.1	4.4	4.9	5.8
Public and Others	35.9	35.9	35.8	36.7	36.8

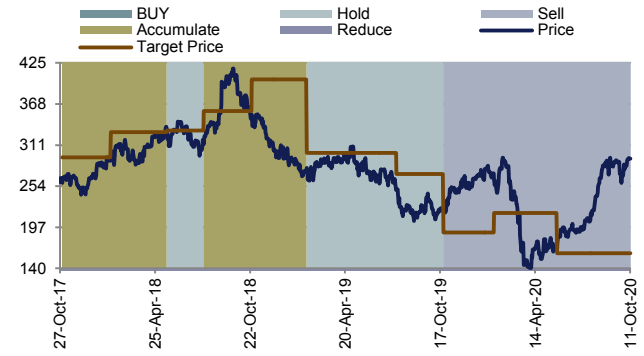
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
10-Oct-20	292	161	12m	Sell	Vishal Chandak
26-Jul-20	205	161	12m	Sell	Vishal Chandak
11-Jun-20	185	161	12m	Sell	Vishal Chandak
25-May-20	166	161	12m	Sell	Vishal Chandak
27-Jan-20	263	217	12m	Sell	Vishal Chandak
23-Oct-19	223	190	12m	Sell	Vishal Chandak
26-Jul-19	250	271	12m	Hold	Vishal Chandak
25-May-19	288	300	12m	Hold	Vishal Chandak
6-Feb-19	279	300	12m	Hold	Vishal Chandak
25-Oct-18	353	402	12m	Accumulate	Kamal Sahoo
26-Jul-18	312	358	12m	Accumulate	Goutam Chakraborty
17-May-18	332	331	12m	Hold	Goutam Chakraborty
8-May-18	324	329	12m	Accumulate	Goutam Chakraborty
1-Mar-18	306	329	12m	Accumulate	Goutam Chakraborty
31-Jan-18	290	329	12m	Accumulate	Goutam Chakraborty
1-Nov-17	265	294	12m	Accumulate	Goutam Chakraborty
31-Oct-17	258	294	12m	Accumulate	Goutam Chakraborty

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Metals & Mining



Analyst: Vishal Chandak

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Sector

Metals and Mining

Analyst bio

Vishal Chandak is a CA and MBA (Finance). He brings in over 16 years of experience, including seven years in the corporate side, with balance being on both the buy side and sell side. Currently, his team tracks 12 stocks in the Metals and Mining space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Metals & Mining	2.34	2.34	0%	0	100.00
Coal India	0.37	0.38	1%	0	16.18
Hindalco	0.41	0.41	0%	0	17.62
Hindustan Zinc	0.09	0.09	2%	0	4.04
Jindal Stainless	0.00	0.00	NA	0	0.00
Jindal Stainless Hisar	0.00	0.00	NA	0	0.00
JSW Steel	0.49	0.50	1%	1	21.36
MOIL	0.00	0.00	NA	0	0.00
National Aluminium Co	0.04	0.00	-100%	-4	0.00
NMDC	0.12	0.12	2%	0	5.31
SAIL	0.06	0.06	2%	0	2.49
Tata Steel	0.46	0.45	-2%	-1	19.17
Vedanta	0.29	0.32	11%	3	13.78
Cash	0.00	0.00	NA	0	0.05

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

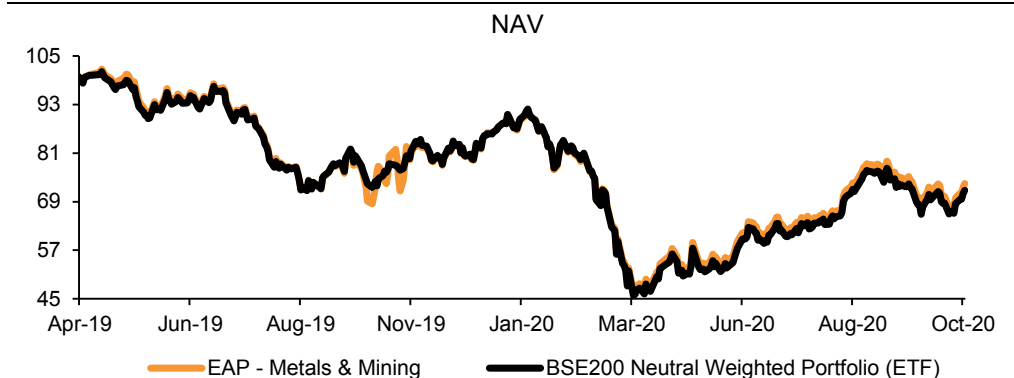
Sector portfolio NAV

	Base					Latest
	1-Apr-19	23-Jan-20	23-Apr-20	23-Jul-20	22-Sep-20	22-Oct-20
EAP - Metals & Mining	100.0	86.8	53.4	66.1	70.0	73.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	86.8	52.0	64.7	68.3	71.8

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 26 Oct 2020 09:13:50 (SGT)

Dissemination Date: 26 Oct 2020 09:14:50 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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