

JSW Steel (JSTL IN)

Rating: REDUCE | CMP: Rs321 | TP: Rs223

Margins in peaked-out zone; Maintain Reduce

Quick Pointers:

- Net debt fell 3%/Rs16bn QoQ at Rs529bn; Net debt/EBITDA at 4.73x
- Guided to maintain margins for rest of the financial year
- Captive iron ore's share at 27% of requirement in Q2FY21

JSW Steel (JSTL) posted Q2FY21 EBITDA above our/consensus estimates by 6%/25% on the back of better than expected earnings in domestic ops. While overseas ops continued to drag earnings.

Stock rallied sharply in last three months on the back of sharp uptick in steel prices, led by strong pent-up demand in China and severe shortage due to covid-19. Supplies have started to come back strongly as visible in increasing production levels. Chinese production at record levels would pose strong headwind to global prices. Hence, we believe that global prices have peaked out as visible in above mean spreads with continuous increase in global supplies. We maintain our negative outlook on the stock due to stretched valuations (EV/EBITDA of 7.6x FY22e), peaked out margins and overhang of Bhushan Power and Steel (BPSL) acquisition. We maintain Reduce with TP of Rs223 (earlier Rs185), EV/EBITDA of 6.5x FY22e.

- Better realisations led the beat at standalone level:** Sales volume grew 14.4% YoY/47% QoQ at 4.1mnt (PLe:4.10mnt). Realisations increased 12% QoQ/Rs4,240/t QoQ (↓2.3% YoY/Rs960/t) at Rs40,020/t (PLe:Rs39,280/t). Due to lower power & fuel costs and RM costs, Cost/t fell 3% QoQ/Rs1,025 at Rs30,635 (PLe:Rs30,420)/t. Benefitted by higher realisations, EBITDA/t came above our estimates at Rs10,135 (PLe:Rs9,760), up 57% YoY/99% QoQ.
- Losses at overseas operations drags consol earnings:** USA Pipe and Plate mill/Acero/Italy based Aferpi ops reported EBITDA losses at USD13.4mn/ USD10.5mn/USD14.7mn (PLe: Loss of USD8mn/ USD10.5mn/ USD6.6mn). EBITDA of domestic subs rose 72% QoQ to Rs2.9bn (PLe:Rs2.2bn). Owing to better domestic ops partially offset by weak overseas ops, adj. consolidated EBITDA came 6% above our estimate at Rs41.9bn (PLe:Rs39.6bn), up 212% QoQ (+85% YoY). Adjusted PAT came at Rs14.3bn (PLe:12.9bn) v/s Net Loss of Rs5.6bn/Profit Rs0.3bn in Q1FY21/Q4FY20

- Key highlights of Con-call:** 1) Domestic prices at par with landed cost of imports after hike in October 2) Experiencing domestic iron ore shortage due to lower production from new mines and higher exports 3) Expects upward revision of 10-12% in half-yearly/quarterly contracts which constitute 20% of total volumes 4) Eight out of nine iron ore mines acquired in Karnataka operational; would commission ninth mine in Q3 5) Maintained FY21e sales volume guidance at 15mnt 6) Coking coal cost will be flat QoQ in Q3FY21e 7) Final hearing of Bhushan Power and steel (BPSL) is scheduled on 5th Nov'20 8) 5mtpa expansion at Dolvi will commission by Q4FY21e 9) Spent Rs44bn on capex in H1 out of guidance of Rs90bn for FY21e.

October 26, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	REDUCE		REDUCE	
Target Price	223		185	
Sales (Rs. m)	8,81,571	10,27,746	8,76,985	10,22,628
% Chng.	0.5	0.5		
EBITDA (Rs. m)	1,82,497	2,10,783	1,77,913	2,05,667
% Chng.	2.6	2.5		
EPS (Rs.)	21.8	27.2	19.6	24.8
% Chng.	11.4	9.9		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	726	706	882	1,028
EBITDA (Rs. bn)	112	143	182	211
Margin (%)	15.4	20.2	20.7	20.5
PAT (Rs. bn)	41	38	53	66
EPS (Rs.)	17.1	15.8	21.8	27.2
Gr. (%)	(45.7)	(7.6)	37.9	24.7
DPS (Rs.)	2.0	2.0	4.0	4.0
Yield (%)	0.6	0.6	1.2	1.2
RoE (%)	11.6	10.0	12.5	13.8
RoCE (%)	7.3	8.9	10.8	12.4
EV/Sales (x)	1.8	2.0	1.6	1.3
EV/EBITDA (x)	11.8	9.8	7.7	6.5
PE (x)	18.7	20.3	14.7	11.8
P/BV (x)	2.1	1.9	1.7	1.5

Key Data

JSTL.BO | JSTL IN

52-W High / Low	Rs.327 / Rs.133
Sensex / Nifty	40,686 / 11,930
Market Cap	Rs.777bn/ \$ 10,551m
Shares Outstanding	2,417m
3M Avg. Daily Value	Rs.5325.62m

Shareholding Pattern (%)

Promoter's	44.07
Foreign	13.34
Domestic Institution	5.84
Public & Others	36.75
Promoter Pledge (Rs bn)	91.21

Stock Performance (%)

	1M	6M	12M
Absolute	19.8	100.8	44.3
Relative	10.9	57.3	38.5

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Exhibit 1: Q2FY21 Result Overview (Rs mn)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	1,90,360	1,71,060	11.3	1,17,820	3,08,180	3,69,180	(16.5)
Raw Material	93,930	94,050	(0.1)	63,230	1,57,160	1,97,420	(20.4)
<i>% of Net Sales</i>	<i>49.3</i>	<i>55.0</i>		<i>53.7</i>	<i>51.0</i>	<i>53.5</i>	
Purchase of traded goods	330	50		10	340	300	
<i>% of Net Sales</i>	<i>0.2</i>	<i>0.0</i>		<i>0.0</i>	<i>0.1</i>	<i>0.1</i>	
Staff Costs	6,020	6,530	(7.8)	6,250	12,270	14,120	(13.1)
<i>% of Net Sales</i>	<i>3.2</i>	<i>3.8</i>		<i>5.3</i>	<i>4.0</i>	<i>3.8</i>	
Power & Fuel	14,050	15,490	(9.3)	12,540	26,590	32,510	(18.2)
<i>% of Net Sales</i>	<i>7.4</i>	<i>9.1</i>		<i>10.6</i>	<i>8.6</i>	<i>8.8</i>	
Other Expenses	34,170	32,290	5.8	22,380	56,550	65,020	(13.0)
<i>% of Net Sales</i>	<i>18.0</i>	<i>18.9</i>		<i>19.0</i>	<i>18.3</i>	<i>17.6</i>	
Total Expenditure	1,48,500	1,48,410	0.1	1,04,410	2,52,910	3,09,370	(18.2)
EBITDA	41,860	22,650	84.8	13,410	55,270	59,810	(7.6)
<i>Margin (%)</i>	<i>22.0</i>	<i>13.2</i>		<i>11.4</i>	<i>17.9</i>	<i>16.2</i>	
Depreciation	11,490	10,570	8.7	10,470	21,960	20,830	5.4
Other income	1,520	1,560	(2.6)	1,320	2,840	2,970	(4.4)
EBIT	31,890	13,640	133.8	4,260	36,150	41,950	(13.8)
Interest	9,590	11,270	(14.9)	10,160	19,750	21,690	(8.9)
PBT	22,300	2,370	840.9	(5,900)	16,400	20,260	(19.1)
Extraordinary income/(expense)	2,280	4,660		-	2,280	4,660	
PBT (After EO)	24,580	7,030	249.6	(5,900)	18,680	24,920	(25.0)
Tax	9,100	(18,480)	(149.2)	(610)	8,490	(10,860)	(178.2)
<i>% PBT</i>	<i>37.0</i>	<i>-262.9</i>		<i>10.3</i>	<i>45.4</i>	<i>-43.6</i>	
Reported PAT	15,480	25,510	(39.3)	(5,290)	10,190	35,780	(71.5)
Minority interest	20	(240)	-	(210)	(190)	(440)	-
Share of profit/(losses) in Associates	470	(150)	-	(530)	(60)	(340)	-
Net Profit attributable to shareholders	15,930	25,600	(37.8)	(5,610)	10,320	35,880	(71.2)
Adjusted PAT	14,334	268	5,248.5	(5,610)	8,724	10,548	(17.3)

Source: Company, PL

Exhibit 2: Key Operating Metrics

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Crude steel production (000 tonnes)	3,850	3,840	0.3	2,960	6,810	8,080	(15.7)
Sales (000 Tonnes)	4,120	3,600	14.4	2,800	6,920	7,350	(5.9)
Realisation per tonne	40,017	40,978	(2.3)	35,779	38,302	43,668	(12.3)
EBITDA per tonne	10,136	6,472	56.6	5,104	8,100	8,384	(3.4)
Total cost per tonne	30,633	35,344	(13.3)	31,657	31,048	36,177	(14.2)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	7,26,100	7,06,336	8,81,571	10,27,746
YoY gr. (%)	(14.3)	(2.7)	24.8	16.6
Cost of Goods Sold	3,87,300	3,47,601	4,55,088	5,45,255
Gross Profit	3,38,800	3,58,735	4,26,484	4,82,491
Margin (%)	46.7	50.8	48.4	46.9
Employee Cost	28,390	17,427	19,236	20,900
Other Expenses	1,36,120	1,36,584	1,47,539	1,61,724
EBITDA	1,11,570	1,42,854	1,82,497	2,10,783
YoY gr. (%)	(41.1)	28.0	27.8	15.5
Margin (%)	15.4	20.2	20.7	20.5
Depreciation and Amortization	42,460	46,152	57,764	62,883
EBIT	69,110	96,701	1,24,733	1,47,901
Margin (%)	9.5	13.7	14.1	14.4
Net Interest	42,650	41,066	51,232	55,295
Other Income	5,460	5,310	5,431	5,553
Profit Before Tax	31,030	60,945	78,932	98,159
Margin (%)	4.3	8.6	9.0	9.6
Total Tax	(9,060)	22,642	26,519	32,706
Effective tax rate (%)	(29.2)	37.2	33.6	33.3
Profit after tax	40,090	38,303	52,413	65,452
Minority interest	(1,110)	(1,000)	(1,000)	(1,000)
Share Profit from Associate	(900)	(1,000)	(600)	(600)
Adjusted PAT	41,450	38,303	52,813	65,852
YoY gr. (%)	(45.7)	(7.6)	37.9	24.7
Margin (%)	5.7	5.4	6.0	6.4
Extra Ord. Income / (Exp)	(1,150)	-	-	-
Reported PAT	40,300	38,303	52,813	65,852
YoY gr. (%)	(47.2)	(5.0)	37.9	24.7
Margin (%)	5.6	5.4	6.0	6.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	40,300	38,303	52,813	65,852
Equity Shares O/s (m)	2,417	2,417	2,417	2,417
EPS (Rs)	17.1	15.8	21.8	27.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	8,02,940	10,72,240	11,31,290	12,46,990
Tangibles	8,02,940	10,72,240	11,31,290	12,46,990
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,87,150	2,33,302	2,91,067	3,53,949
Tangibles	1,87,150	2,33,302	2,91,067	3,53,949
Intangibles	-	-	-	-
Net fixed assets	6,15,790	8,38,938	8,40,223	8,93,041
Tangibles	6,15,790	8,38,938	8,40,223	8,93,041
Intangibles	-	-	-	-
Capital Work In Progress	2,81,840	1,02,060	1,30,250	91,210
Goodwill	4,150	4,150	4,150	4,150
Non-Current Investments	27,250	26,440	26,040	25,640
Net Deferred tax assets	(12,920)	(24,403)	(37,899)	(54,729)
Other Non-Current Assets	19,630	48,126	48,426	48,726
Current Assets				
Investments	20	20	20	20
Inventories	1,38,640	1,36,499	1,62,335	1,87,291
Trade receivables	45,050	53,033	66,184	77,158
Cash & Bank Balance	1,20,030	1,15,212	98,432	1,15,082
Other Current Assets	25,860	36,054	43,470	49,700
Total Assets	13,18,200	14,07,978	14,76,386	15,59,840
Equity				
Equity Share Capital	3,010	3,010	3,010	3,010
Other Equity	3,62,980	3,96,453	4,44,431	5,00,615
Total Network	3,65,990	3,99,463	4,47,441	5,03,625
Non-Current Liabilities				
Long Term borrowings	6,54,770	7,44,670	7,24,570	7,04,470
Provisions	3,480	3,480	3,480	3,480
Other non current liabilities	280	280	280	280
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,79,180	1,56,233	1,82,565	2,12,601
Other current liabilities	98,840	77,709	79,411	80,916
Total Equity & Liabilities	13,18,200	14,07,978	14,76,386	15,59,840

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	30,130	60,945	78,932	98,159
Add. Depreciation	42,460	46,152	57,764	62,883
Add. Interest	39,240	41,066	51,232	55,295
Less Financial Other Income	5,460	5,310	5,431	5,553
Add. Other	11,180	(4,495)	(4,500)	(4,506)
Op. profit before WC changes	1,23,010	1,43,669	1,83,428	2,11,830
Net Changes-WC	16,390	(96,307)	(28,278)	(22,086)
Direct tax	(11,550)	(11,159)	(13,023)	(15,876)
Net cash from Op. activities	1,27,850	36,203	1,42,127	1,73,868
Capital expenditures	(1,26,670)	(89,520)	(87,240)	(76,660)
Interest / Dividend Income	5,130	4,495	4,500	4,506
Others	(74,320)	-	-	-
Net Cash from Invt. activities	(1,95,860)	(85,025)	(82,740)	(72,154)
Issue of share cap. / premium	(5,660)	-	-	-
Debt changes	1,14,700	89,900	(20,100)	(20,100)
Dividend paid	(11,950)	(4,830)	(4,834)	(9,669)
Interest paid	(45,200)	(41,066)	(51,232)	(55,295)
Others	-	-	-	-
Net cash from Fin. activities	51,890	44,004	(76,167)	(85,064)
Net change in cash	(16,120)	(4,818)	(16,780)	16,650
Free Cash Flow	180	(53,317)	54,887	97,208

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	1,78,050	1,78,870	1,17,820	1,90,360
YoY gr. (%)	(12.4)	(20.0)	(40.5)	11.3
Raw Material Expenses	1,00,530	89,050	63,240	94,260
Gross Profit	77,520	89,820	54,580	96,100
Margin (%)	43.5	50.2	46.3	50.5
EBITDA	22,010	29,750	13,410	41,860
YoY gr. (%)	(51.1)	(33.0)	(63.9)	84.8
Margin (%)	12.4	16.6	11.4	22.0
Depreciation / Depletion	10,550	11,080	10,470	11,490
EBIT	11,460	18,670	2,940	30,370
Margin (%)	6.4	10.4	2.5	16.0
Net Interest	10,600	10,360	10,160	9,590
Other Income	1,270	1,220	1,320	1,520
Profit before Tax	4,630	1,480	(5,900)	24,580
Margin (%)	2.6	0.8	(5.0)	12.9
Total Tax	2,490	(690)	(610)	9,100
Effective tax rate (%)	53.8	(46.6)	10.3	37.0
Profit after Tax	2,140	2,170	(5,290)	15,480
Minority interest	(240)	(430)	(210)	20
Share Profit from Associates	(270)	(290)	(530)	470
Adjusted PAT	360	7,945	(5,610)	14,334
YoY gr. (%)	(97.8)	(47.8)	(154.6)	5,248.5
Margin (%)	0.2	4.4	(4.8)	7.5
Extra Ord. Income / (Exp)	1,750	(5,635)	-	1,596
Reported PAT	2,110	2,310	(5,610)	15,930
YoY gr. (%)	(87.0)	(84.8)	(154.6)	(37.8)
Margin (%)	1.2	1.3	(4.8)	8.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,110	2,310	(5,610)	15,930
Avg. Shares O/s (m)	2,417	2,417	2,417	2,417
EPS (Rs)	0.1	3.3	(2.3)	5.9

Source: Company Data, PL Research

Key Financial Metrics

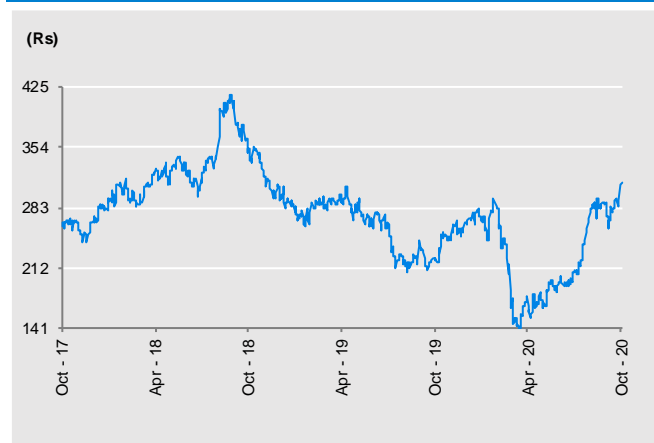
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	17.1	15.8	21.8	27.2
CEPS	34.7	34.9	45.7	53.3
BVPS	151.4	165.3	185.1	208.3
FCF	0.1	(22.1)	22.7	40.2
DPS	2.0	2.0	4.0	4.0
Return Ratio(%)				
RoCE	7.3	8.9	10.8	12.4
ROIC	10.8	6.3	7.8	9.2
RoE	11.6	10.0	12.5	13.8
Balance Sheet				
Net Debt : Equity (x)	1.5	1.6	1.4	1.2
Net Working Capital (Days)	2	17	19	18
Valuation(x)				
PER	18.7	20.3	14.7	11.8
P/B	2.1	1.9	1.7	1.5
P/CEPS	34.7	34.9	45.7	53.3
EV/EBITDA	11.8	9.8	7.7	6.5
EV/Sales	1.8	2.0	1.6	1.3
Dividend Yield (%)	0.6	0.6	1.2	1.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Crude Steel Prod.	16	16	20	23
Rolled Products Prod.	15	14	18	22
Sales Vol. (mt)	15	15	19	22
Realisation / tonne (Rs)	41,334	39,836	39,972	40,493
EBITDA / tonne (Rs)	7,828	9,141	9,000	9,000
Cost / tonne of iron ore (Rs)	3,400	2,900	3,000	3,000
Cost / tonne of coking coal (Rs)	11,882	10,353	11,264	12,098

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-20	Reduce	185	293
2	27-Jul-20	Reduce	160	204
3	10-Jul-20	Reduce	140	197
4	25-May-20	Reduce	140	166
5	20-Apr-20	Reduce	145	177
6	25-Jan-20	Reduce	200	272
7	03-Jan-20	Reduce	200	272

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,805	1,563
2	Ambuja Cement	BUY	285	254
3	Coal India	Hold	132	113
4	Heidelberg Cement India	Accumulate	195	190
5	Hindalco Industries	BUY	218	174
6	Hindustan Zinc	Hold	235	223
7	Jindal Steel & Power	BUY	260	195
8	JK Lakshmi Cement	BUY	350	263
9	JSW Steel	Reduce	185	293
10	NMDC	Accumulate	98	83
11	Shree Cement	Reduce	19,100	20,297
12	Steel Authority of India	Reduce	30	34
13	Tata Steel	Reduce	315	374
14	The Ramco Cements	Reduce	660	756
15	Ultratech Cement	BUY	5,400	4,629

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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