

January 24, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	REDUCE		REDUCE	
Target Price	335		380	
Sales (Rs. m)	9,53,432	10,88,027	9,71,714	10,85,977
% Chng.	(1.9)	0.2		
EBITDA (Rs. m)	2,38,687	2,82,339	2,65,501	2,84,939
% Chng.	(10.1)	(0.9)		
EPS (Rs.)	37.0	46.0	44.5	47.0
% Chng.	(17.0)	(2.2)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	726	768	953	1,088
EBITDA (Rs. bn)	112	197	239	282
Margin (%)	15.4	25.7	25.0	25.9
PAT (Rs. bn)	41	73	89	111
EPS (Rs.)	17.1	30.2	37.0	46.0
Gr. (%)	(45.7)	76.3	22.3	24.4
DPS (Rs.)	2.0	2.0	4.0	4.0
Yield (%)	0.5	0.5	1.1	1.1
RoE (%)	11.6	18.3	18.8	19.5
RoCE (%)	7.3	14.4	16.5	19.5
EV/Sales (x)	2.0	1.9	1.5	1.2
EV/EBITDA (x)	12.9	7.6	6.1	4.8
PE (x)	21.9	12.4	10.2	8.2
P/BV (x)	2.5	2.1	1.7	1.5

Key Data

JSTL.BO | JSTL IN

52-W High / Low	Rs.413 / Rs.133
Sensex / Nifty	48,879 / 14,372
Market Cap	Rs.907bn/ \$ 12,435m
Shares Outstanding	2,417m
3M Avg. Daily Value	Rs.5197.12m

Shareholding Pattern (%)

Promoter's	44.07
Foreign	13.31
Domestic Institution	6.29
Public & Others	36.33
Promoter Pledge (Rs bn)	92.47

Stock Performance (%)

	1M	6M	12M
Absolute	3.7	81.4	41.2
Relative	(2.4)	40.5	18.8

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Higher costs led the miss; margins to peak out in Q4

Quick Pointers:

- Margins up 42% QoQ due to +18% realisations, offset by 9% increase in cost
- Captive iron ore's share at 49% of requirement in Q3FY21 v/s 26% in Q2FY21
- Net debt fell 2%/Rs11bn QoQ at Rs518bn; Net debt/EBITDA at 3.53x

JSW Steel (JSTL) posted Q3FY21 EBITDA 7% below our estimates due to lower than expected costs. However, earnings were above consensus estimates by 10%.

Steel prices soared nearly 55% over last six months on back of strong pent-up demand and severe supply constraints. Supplies are coming back strongly as visible in increasing production levels month after month. Softening in demand and revival in supplies poses strong headwinds to prices. Hence, we believe that global prices have peaked out as visible in above mean spreads. We maintain our negative outlook on the stock due to stretched valuations (EV/EBITDA of 6x FY22e) and peaked out margins. We maintain Reduce with TP of Rs335 (earlier Rs380), EV/EBITDA of 5.75x FY22e.

- **Higher than expected costs led the miss at standalone level:** Sales volume fell 3% YoY/5% QoQ at 3.9mnt (PLe:4.0mnt). Realisations increased 18% QoQ/Rs7,190/t (+25% YoY/Rs9,490) at Rs47,205/t (PLe:Rs46,520/t). Due to higher iron ore cost, Cost rose 9% QoQ/Rs2,840 (+3% YoY/Rs970) at Rs33,480 (PLe:Rs31,870)/t. Impacted by higher than costs, EBITDA/t came below our estimates at Rs14,444 (PLe:Rs15,400), up 42% QoQ/1.4x YoY.
- **Losses at overseas operations continue to drag consol earnings:** US Pipe and Plate mill/Acero/Italy based Aferpi ops reported EBITDA losses at US\$8.5mn/US\$21.3mn/US\$0.5mn (PLe: Loss of US\$7.8mn/US\$6.9mn/US\$8.5mn). EBITDA of domestic subs rose 1.4x QoQ/1.6x at Rs7.0bn (PLe:Rs6.4bn). Due to lower than expected margins in domestic operations and weak overseas operations, consolidated EBITDA came 7% below our estimate at Rs59.3bn (PLe:Rs64.0bn), up 42% QoQ (+1.7x YoY). PAT grew 86% QoQ at Rs26.7bn (PLe:29.4bn).
- **Key highlights of Con-call:** 1) Long products softened over last fortnight due to better availability of iron ore and increase in supplies by secondary producers 2) Reached monthly despatch of 1.9mnt from Odisha mines 3) Revenues included Rs5.5bn from sale of iron ore in Odisha mines 4) Integrated commissioning of 5.0mtpa expansion at Dolvi plant delayed to Q1FY22e due to visa issues of foreign technicians and equipment suppliers 5) Reiterated FY21e capex guidance at Rs90bn (spent Rs63.8bn in 9MFY21) 6) Will resume operations in USA facilities by Mar'21 7) Movement from iron ore mines in Odisha would ease with availability of two railway sidings 8) Consumption cost of coking coal reduced by US\$6/t QoQ 9) Impact of higher coking coal would be visible in Q1FY22e 10) Share of exports fell 1,600bps QoQ to 12%.

Exhibit 1: Q3FY21 Result Overview (Rs mn)

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Net Sales	2,18,400	1,78,050	22.7	1,90,360	5,26,580	5,47,230	(3.8)
Raw Material	77,660	1,00,370	(22.6)	93,930	2,34,820	2,97,790	(21.1)
<i>% of Net Sales</i>	35.6	56.4		49.3	44.6	54.4	
Purchase of traded goods	210	160		330	550	460	
<i>% of Net Sales</i>	0.1	0.1		0.2	0.1	0.1	
Staff Costs	6,260	7,090	(11.7)	6,020	18,530	21,210	(12.6)
<i>% of Net Sales</i>	2.9	4.0		3.2	3.5	3.9	
Power & Fuel	14,810	14,930	(0.8)	14,050	41,400	47,440	(12.7)
<i>% of Net Sales</i>	6.8	8.4		7.4	7.9	8.7	
Other Expenses	60,190	33,490	79.7	34,170	1,16,740	98,510	18.5
<i>% of Net Sales</i>	27.6	18.8		18.0	22.2	18.0	
Total Expenditure	1,59,130	1,56,040	2.0	1,48,500	4,12,040	4,65,410	(11.5)
EBITDA	59,270	22,010	169.3	41,860	1,14,540	81,820	40.0
<i>Margin (%)</i>	27.1	12.4		22.0	21.8	15.0	
Depreciation	12,300	10,550	16.6	11,490	34,260	31,380	9.2
Other income	1,470	1,270	15.7	1,520	4,310	4,240	1.7
EBIT	48,440	12,730	280.5	31,890	84,590	54,680	54.7
Interest	9,770	10,600	(7.8)	9,590	29,520	32,290	(8.6)
PBT	38,670	2,130	1,715.5	22,300	55,070	22,390	146.0
Extraordinary income/(expense)	190	2,500		2,280	2,470	7,160	
PBT (After EO)	38,860	4,630	739.3	24,580	57,540	29,550	94.7
Tax	12,120	2,490	386.7	9,100	20,610	(8,370)	(346.2)
<i>% PBT</i>	31.2	53.8		37.0	35.8	-28.3	
Reported PAT	26,740	2,140	1,149.5	15,480	36,930	37,920	(2.6)
Minority interest	(120)	(240)	-	20	(310)	(680)	-
Share of profit/(losses) in Associates	(50)	(270)	-	470	(110)	(610)	-
Net Profit attributable to shareholders	26,810	2,110	1,170.6	15,930	37,130	37,990	(2.3)
Adjusted PAT	26,677	360	7,310.3	14,334	35,401	10,908	224.5

Source: Company, PL

Exhibit 2: Key Operating Metrics

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Crude steel production (000 tonnes)	4,080	4,020	1.5	3,850	10,890	12,100	(10.0)
Sales (000 Tonnes)	3,900	4,030	(3.2)	4,120	10,820	11,380	(4.9)
Realisation per tonne	48,615	37,715	28.9	40,017	42,019	41,560	1.1
EBITDA per tonne	14,444	5,998	140.8	10,136	10,386	7,539	37.8
Total cost per tonne	34,887	32,506	7.3	30,633	32,432	34,877	(7.0)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	7,26,100	7,67,792	9,53,432	10,88,027
YoY gr. (%)	(14.3)	5.7	24.2	14.1
Cost of Goods Sold	3,87,300	3,54,297	4,65,892	5,24,868
Gross Profit	3,38,800	4,13,495	4,87,540	5,63,159
Margin (%)	46.7	53.9	51.1	51.8
Employee Cost	28,390	17,324	19,524	21,297
Other Expenses	1,36,120	1,38,747	1,52,035	1,68,851
EBITDA	1,11,570	1,97,126	2,38,687	2,82,339
YoY gr. (%)	(41.1)	76.7	21.1	18.3
Margin (%)	15.4	25.7	25.0	25.9
Depreciation and Amortization	42,460	45,467	57,788	63,001
EBIT	69,110	1,51,660	1,80,899	2,19,338
Margin (%)	9.5	19.8	19.0	20.2
Net Interest	42,650	39,941	47,629	53,613
Other Income	5,460	5,310	6,748	7,726
Profit Before Tax	31,030	1,17,028	1,40,019	1,73,451
Margin (%)	4.3	15.2	14.7	15.9
Total Tax	(9,060)	44,141	51,055	62,674
Effective tax rate (%)	(29.2)	37.7	36.5	36.1
Profit after tax	40,090	72,888	88,963	1,10,778
Minority interest	(1,110)	(1,000)	(1,000)	(1,000)
Share Profit from Associate	(900)	(800)	(600)	(600)
Adjusted PAT	41,450	73,088	89,363	1,11,178
YoY gr. (%)	(45.7)	76.3	22.3	24.4
Margin (%)	5.7	9.5	9.4	10.2
Extra Ord. Income / (Exp)	(1,150)	-	-	-
Reported PAT	40,300	73,088	89,363	1,11,178
YoY gr. (%)	(47.2)	81.4	22.3	24.4
Margin (%)	5.6	9.5	9.4	10.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	40,300	73,088	89,363	1,11,178
Equity Shares O/s (m)	2,417	2,417	2,417	2,417
EPS (Rs)	17.1	30.2	37.0	46.0

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	11,32,790	12,49,990
Tangibles	8,02,940	10,72,240	11,32,790	12,49,990
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,87,150	2,32,617	2,90,405	3,53,407
Tangibles	1,87,150	2,32,617	2,90,405	3,53,407
Intangibles	-	-	-	-
Net fixed assets	6,15,790	8,39,623	8,42,385	8,96,583
Tangibles	6,15,790	8,39,623	8,42,385	8,96,583
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	26,640	26,240	25,840
Net Deferred tax assets	(12,920)	(33,898)	(58,332)	(88,504)
Other Non-Current Assets	19,630	48,126	48,426	48,726
Current Assets				
Investments	20	20	20	20
Inventories	1,38,640	1,46,679	1,73,980	1,97,720
Trade receivables	45,050	57,747	71,718	81,782
Cash & Bank Balance	1,20,030	55,050	53,076	67,165
Other Current Assets	25,860	38,600	46,455	52,198
Total Assets	13,18,200	13,66,147	14,53,419	15,33,081
Equity				
Equity Share Capital	3,010	3,010	3,010	3,010
Other Equity	3,62,980	4,31,238	5,15,766	6,17,275
Total Networkth	3,65,990	4,34,248	5,18,776	6,20,285
Non-Current Liabilities				
Long Term borrowings	6,54,770	6,44,670	5,94,570	5,14,470
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	1,69,703	1,97,331	2,24,987
Other current liabilities	98,840	78,128	79,909	81,335
Total Equity & Liabilities	13,18,200	13,66,147	14,53,419	15,33,081

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	30,130	1,17,028	1,40,019	1,73,451
Add. Depreciation	42,460	45,467	57,788	63,001
Add. Interest	39,240	39,941	47,629	53,613
Less Financial Other Income	5,460	5,310	6,748	7,726
Add. Other	11,180	(4,495)	(5,817)	(6,679)
Op. profit before WC changes	1,23,010	1,97,941	2,39,618	2,83,387
Net Changes-WC	16,390	(99,862)	(29,486)	(21,933)
Direct tax	(11,550)	(23,163)	(26,621)	(32,502)
Net cash from Op. activities	1,27,850	74,916	1,83,512	2,28,952
Capital expenditures	(1,26,670)	(89,520)	(88,740)	(78,160)
Interest / Dividend Income	5,130	4,495	5,817	6,679
Others	(74,320)	-	-	-
Net Cash from Inv. activities	(1,95,860)	(85,025)	(82,923)	(71,481)
Issue of share cap. / premium	(5,660)	-	-	-
Debt changes	1,14,700	(10,100)	(50,100)	(80,100)
Dividend paid	(11,950)	(4,830)	(4,834)	(9,669)
Interest paid	(45,200)	(39,941)	(47,629)	(53,613)
Others	-	-	-	-
Net cash from Fin. activities	51,890	(54,871)	(1,02,563)	(1,43,381)
Net change in cash	(16,120)	(64,980)	(1,974)	14,089
Free Cash Flow	180	(14,603)	94,772	1,50,792

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	1,78,870	1,17,820	1,90,360	2,18,400
YoY gr. (%)	(20.0)	(40.5)	11.3	22.7
Raw Material Expenses	89,050	63,240	94,260	77,870
Gross Profit	89,820	54,580	96,100	1,40,530
Margin (%)	50.2	46.3	50.5	64.3
EBITDA	29,750	13,410	41,860	59,270
YoY gr. (%)	(33.0)	(63.9)	84.8	169.3
Margin (%)	16.6	11.4	22.0	27.1
Depreciation / Depletion	11,080	10,470	11,490	12,300
EBIT	18,670	2,940	30,370	46,970
Margin (%)	10.4	2.5	16.0	21.5
Net Interest	10,360	10,160	9,590	9,770
Other Income	1,220	1,320	1,520	1,470
Profit before Tax	1,480	(5,900)	24,580	38,860
Margin (%)	0.8	(5.0)	12.9	17.8
Total Tax	(690)	(610)	9,100	12,120
Effective tax rate (%)	(46.6)	10.3	37.0	31.2
Profit after Tax	2,170	(5,290)	15,480	26,740
Minority interest	(430)	(210)	20	(120)
Share Profit from Associates	(290)	(530)	470	(50)
Adjusted PAT	7,945	(5,610)	14,334	26,677
YoY gr. (%)	(47.8)	(154.6)	5,248.5	7,310.3
Margin (%)	4.4	(4.8)	7.5	12.2
Extra Ord. Income / (Exp)	(5,635)	-	1,596	133
Reported PAT	2,310	(5,610)	15,930	26,810
YoY gr. (%)	(84.8)	(154.6)	(37.8)	1,170.6
Margin (%)	1.3	(4.8)	8.4	12.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,310	(5,610)	15,930	26,810
Avg. Shares O/s (m)	2,417	2,417	2,417	2,417
EPS (Rs)	3.3	(2.3)	5.9	11.0

Source: Company Data, PL Research

Key Financial Metrics

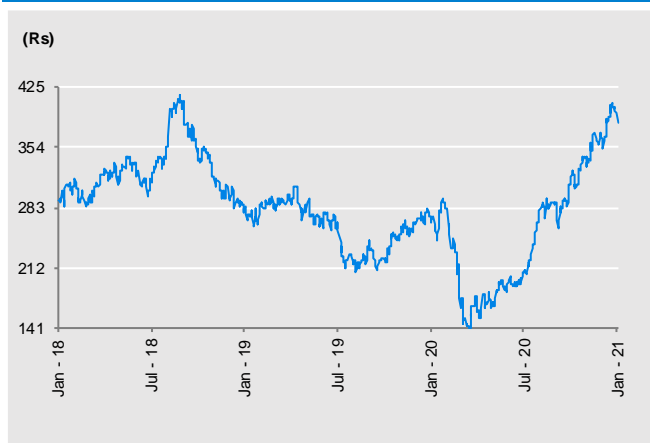
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	17.1	30.2	37.0	46.0
CEPS	34.7	49.0	60.9	72.1
BVPS	151.4	179.6	214.6	256.6
FCF	0.1	(6.0)	39.2	62.4
DPS	2.0	2.0	4.0	4.0
Return Ratio(%)				
RoCE	7.3	14.4	16.5	19.5
ROIC	10.8	9.5	11.0	13.3
RoE	11.6	18.3	18.8	19.5
Balance Sheet				
Net Debt : Equity (x)	1.5	1.4	1.0	0.7
Net Working Capital (Days)	2	17	19	18
Valuation(x)				
PER	21.9	12.4	10.2	8.2
P/B	2.5	2.1	1.7	1.5
P/CEPS	34.7	49.0	60.9	72.1
EV/EBITDA	12.9	7.6	6.1	4.8
EV/Sales	2.0	1.9	1.5	1.2
Dividend Yield (%)	0.5	0.5	1.1	1.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Crude Steel Prod.	16	16	19	23
Rolled Products Prod.	15	15	18	22
Sales Vol. (mt)	15	15	19	22
Realisation / tonne (Rs)	41,334	44,762	44,308	42,920
EBITDA / tonne (Rs)	7,828	12,607	12,257	12,312
Cost / tonne of iron ore (Rs)	3,400	3,850	4,000	3,000
Cost / tonne of coking coal (Rs)	11,882	10,257	10,723	11,235

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Jan-21	Reduce	380	400
2	26-Oct-20	Reduce	223	321
3	09-Oct-20	Reduce	185	293
4	27-Jul-20	Reduce	160	204
5	10-Jul-20	Reduce	140	197
6	25-May-20	Reduce	140	166
7	20-Apr-20	Reduce	145	177
8	25-Jan-20	Reduce	200	272

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,870	1,761
2	Ambuja Cement	BUY	285	270
3	Coal India	Hold	143	147
4	Dalmia Bharat	BUY	1,480	1,204
5	Heidelberg Cement India	Hold	228	236
6	Hindalco Industries	BUY	305	264
7	Hindustan Zinc	Reduce	260	296
8	Jindal Steel & Power	BUY	400	282
9	JK Lakshmi Cement	BUY	425	354
10	JSW Steel	Reduce	380	400
11	NMDC	BUY	145	127
12	Shree Cement	Reduce	23,401	25,813
13	Steel Authority of India	Reduce	66	76
14	Tata Steel	Hold	745	695
15	The Ramco Cements	Reduce	807	852
16	Ultratech Cement	BUY	6,100	5,592

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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