

Mixed bag performance....

About the stock: JSW Steel is one of the leading integrated steel companies in India. It has a strategic collaboration with global leader JFE Steel of Japan, enabling JSW to access new and state-of-the-art technologies to produce and offer high value special steel products to its customers.

- JSW Steel's manufacturing unit in Vijayanagar, Karnataka is the largest single location steel-producing facility in India with a capacity of 12 MTPA
- JSW Steel is the only Indian steel company to be ranked among the top 10 global steel producers by World Steel Dynamics for 10 consecutive years

Q3FY22 Results: JSW Steel reported a mixed set of numbers for Q3FY22.

- On a standalone basis, for Q3FY22 JSW Steel reported sales volume of 4.0 million tonnes (MT) (up 2.6% YoY, 5.7% YoY), higher than our estimate of 3.9 MT. During the quarter, consolidated operating income was at ₹ 38071 crore (up 74% YoY, 17% QoQ)
- Standalone EBITDA/tonne was at ₹ 16993/tonne, lower than our estimate of ₹ 18000/tonne (₹ 22884/tonne in Q2FY22 and ₹ 14444/tonne in Q3FY21). Standalone EBITDA was at ₹ 6797 crore, up 21% YoY but down 22% QoQ. Consolidated EBITDA was at ₹ 9132 crore (up 54% YoY but down 12% QoQ), broadly in line with our estimate of ₹ 9270 crore. During the quarter, provision was made towards mining premium and royalties on account of revision in Indian Bureau of Mines (IBM) iron ore prices and the impact of same on Q3FY22 P&L was ₹ 1056 crore
- Ensuing consolidated PAT for Q3FY21 was at ₹ 4516 crore (up 69% YoY but down 37% QoQ), lower than our estimate of ₹ 5440 crore

What should investors do? JSW Steel's share price has given a return of ~70% over the last 12 months (from ~₹ 375 in Jan 2021 to ~₹ 667 levels in Jan 2022).

- We maintain our HOLD rating on the stock.

Target Price and Valuation: We value JSW Steel at ₹ 725, based on SoTP valuation

Key triggers for future price performance:

- The 5 MTPA expansion at Dolvi (Phase 2 expansion) has commenced integrated steel operations in October 2021 and commercial production has started on November 15, 2021. Ramp-up is under way
- Over FY21-23E, we expect JSW Steel's consolidated topline to grow at a CAGR of 35%, while consolidated EBITDA and PAT is expected to register a CAGR of 33% and 47%, respectively

Alternate Stock Idea: In our metal sector coverage, we like Hindalco.

- Hindalco is the world's largest aluminium company by revenue and a major player in copper segment.
- BUY with a target price of ₹ 600



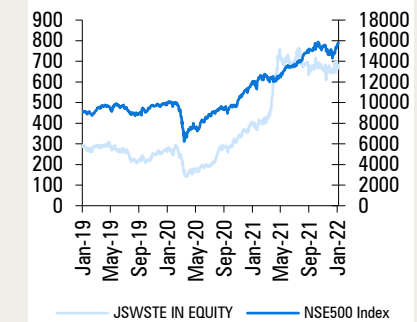
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,61,144
Debt-Cons. (Q3FY22) (₹ Crore)	77,757
Cash Cons. (Q3FY22) (₹ Crore)	11,445
EV (₹ Crore)	2,27,456
52 week H/L	₹ 776 / 356
Equity capital	₹ 241 crore
Face value	₹ 1

Shareholding Pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	44.1	44.1	44.1	44.7
FII	12.7	12.9	12.2	11.2
DII	7.1	7.2	8.1	8.4
Public	35.2	34.9	34.8	34.9
Others	1.0	0.9	0.9	0.8
Total	100.0	100.0	100.0	100.0

Price Chart



Key Risks

- **Key risks:** (i) Steel prices staying higher for a longer time frame, (ii) Higher than expected rise in operating costs

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Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	CAGR (FY16-FY21 in %)	FY22E	FY23E	CAGR (FY21-FY23E in %)
Net Sales	70,225	84,757	73,326	79,839	14%	1,40,397	1,44,754	35%
EBITDA	14,794	18,952	11,873	20,141	27%	39,677	35,722	33%
EBITDA Margin (%)	21.1	22.4	16.2	25.2		28.3	24.7	
Adj PAT	6,113	7,554	4,724	7,956	42%	22,626	17,134	47%
EPS (₹)	25.3	31.3	19.5	32.9		93.6	70.9	
EV/EBITDA (x)	13.4	10.9	18.0	10.6		5.7	6.3	
RoCE (%)	17.9	17.6	7.5	13.8		21.2	14.6	
RoE (%)	21.8	21.7	12.9	17.0		32.7	19.9	

Key takeaways from conference call

- The company has downward revised its production/sales guidance for FY22E at 94-95% level of the previously stated guidance
- During Q3FY22, coking coal prices increased by ~US\$100/tonne, which was in line with company's guidance. During Q3FY22, average coking coal cost was US\$ 257/tonne. The company generally maintains two months of coking coal inventory
- During Q3FY22, the company incurred a capex of ₹ 4026 crore. For 9MFY22, the company incurred a capex of ₹ 10353 crore. Total planned capex for FY22E was ₹ 18240 crore. During Q3FY22, BPSL incurred a capex of ₹ 180 crore
- The Indian Bureau of Mines (IBM) has carried out upward revision of already published average selling price of iron ore for September and October 2021. Based on a legal opinion obtained, the company believes the methodology used by IBM for arriving at such revised selling price by excluding certain bona fide sale transactions of iron ore by the company is not in accordance with the provisions of the Mineral Conservation and Development rules, 2017. Accordingly, the company has contested the same before the Odisha High Court and the matter is sub-judice. However, the company, as a matter of prudence, has recognised the provision towards mining premium and royalties' payable based on such revised average selling prices published by IBM, and the impact on P&L account for Q3FY22 is ₹ 1056 crore

JSW Steel – Q3FY22 and 9MFY22 production & sales summary

JSW Steel Q3FY22 and 9MFY22 production and sales summary

Particulars	Q3 FY22		9M FY22	
	Crude Steel Production	Sales	Crude Steel Production	Sales
Existing operations	4.23	3.82	12.43	11.21
Dolvi Phase-II expansion	0.18*	0.18	0.18*	0.19
JSW Steel Standalone	4.41	4.00	12.61	11.40
Bhushan Power & Steel **	0.64	0.58	2.02	1.82
JSW Steel USA - Ohio	0.16	0.15	0.45	0.40
Joint Control Entity:				
JSW Ispat Special Products Ltd.	0.14	0.13	0.41	0.41
JSW Steel Indian Operations including Joint Control	5.19	4.72	15.04	13.63
Total Combined Volumes	5.35	4.87	15.50	14.03

Source: Company, ICICI Direct Research

Peer comparison

Exhibit 1: Peer Comparison

Company	CMP (₹)	TP (₹)	Rating	Mcap (₹)	Topline (in ₹ crore)			EBITDA (in ₹ crore)			Adj. PAT (in ₹ crore)			P/E(x)			EV/EBITDA(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Hindalco	506	600	Buy	113729	131985	180454	188762	17,536	26,366	26,801	5,674	12,963	13,299	19.9	8.7	8.5	9.2	5.9	5.3
JSW Steel	667	725	Hold	161446	79839	140397	144754	20,141	39,677	35,722	7,956	22,626	17,134	20.3	7.1	9.4	10.6	5.7	6.3

Source: Company, ICICI Direct Research

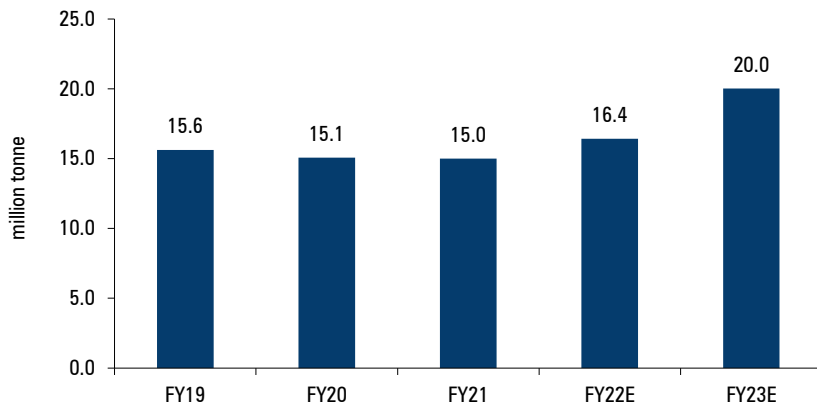
Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Total Operating Income	38071	33358	21859	74	32503	17	Topline came in higher with our estimate
Other Income	154	200	147	5	946	-84	
Total Operating expense	28939	24088	15913	82	22086	31	
EBITDA	9132	9270	5946	54	10417	-12	EBITDA came broadly in line with our estimate
EBITDA Margin (%)	24.0	27.8	27.2	-321 bps	32.0	-806 bps	
Depreciation	1764	1600	1230	43	1239	42	
Interest	1283	1100	977	31	936	37	
Share of profit/ (loss) of Joint Ventures (net)	22	200	-5	-540	603	-96	
Exceptional Item	0	0	0	NA	0.0	NA	
PBT	6261	6970	3881	61	9791	-36	
Tax Outgo	1745	1530	1212	44	2612	-33	For the consolidated entity, effective tax rate for the quarter stood at 28% higher than our estimate of 25%
PAT (incl. Subs, JVs and associates)	4516	5440	2669	69	7179	-37	PAT came in lower than our estimate
Key Metrics							
Standalone Steel Sales (MT)	4.0	3.9	3.9	3	3.8	5	Standalone sales volume came in line with our estimate
Standalone EBITDA/tonne (₹)	16993	18000	14444	18	22884	-26	EBITDA/tonne came in lower than our estimate

Source: Company, ICICI Direct Research

Financial story in charts

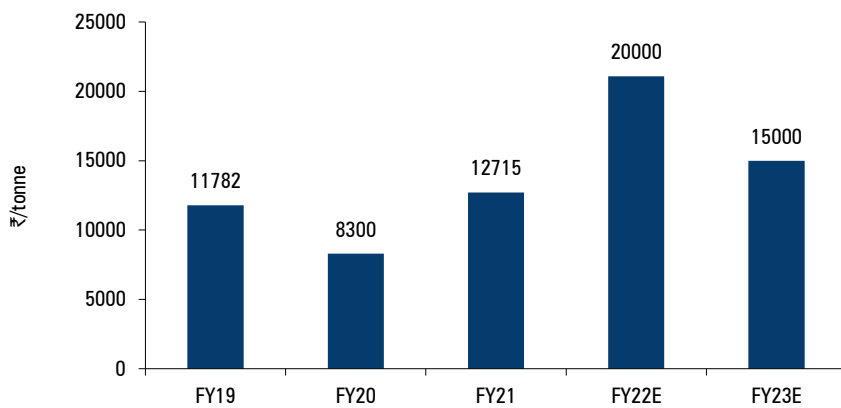
Exhibit 3: Trend in standalone sales volumes



We model standalone sales volume of 16.4 MT for FY22E and 20.0 MT for FY23E

Source: Company, ICICI Direct Research

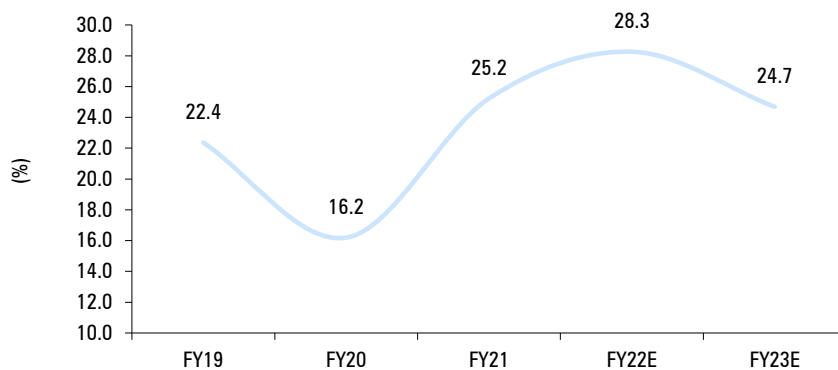
Exhibit 4: Trend in standalone EBITDA/tonne margin level



We model standalone EBITDA/tonne of ₹ 20000/tonne for FY22E and ₹ 15000/tonne for FY23E

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 ~28.3% for FY22E and ~24.7% for FY23E

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Matrix

	Sales (₹ Crore)	Growth (% YoY)	EPS (₹)	Growth (% YoY)	PE (x)	EV/EBIDTA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
FY18	70,225	26.3	25.3	76.3	26.4	13.4	5.8	21.8	17.9
FY19	84,757	20.7	31.3	23.6	21.3	10.9	4.6	21.7	17.6
FY20	73,326	-13.5	19.5	-37.5	34.1	18.0	4.4	12.9	7.5
FY21	79,839	8.9	32.9	68.4	20.3	10.6	3.4	17.0	13.8
FY22E	1,40,397	75.8	93.6	184.4	7.1	5.7	2.3	32.7	21.2
FY23E	1,44,754	3.1	70.9	-24.3	9.4	6.3	1.9	19.9	14.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	73,326	79,839	1,40,397	1,44,754
Growth (%)	-13	9	76	3
Total Operating Expenditure	61453	59698	100720	109031
EBITDA	11,873	20,141	39,677	35,722
EBITDA Margin (%)	16.2	25.2	28.3	24.7
Depreciation	4,246	4,679	6,377	7,950
Interest	4,265	3,957	4,491	4,655
Other Income	546	592	1,459	650
PBT	3,908	12,097	30,268	23,768
Exceptional Item	-805	-83	0	0
Total Tax	-906	4,142	8,626	6,774
PAT Before JV share (net)	4,009	7,872	21,641	16,994
Share of profit/(loss) from JV	-90	1	985	140
PAT after JV share (net)	3,919	7,873	22,626	17,134
Growth (%)	-48	105	187	-24
Adj PAT	4,724	7,956	22,626	17,134
Adj 'EPS (₹)	19.5	32.9	93.6	70.9

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	3,919	7,873	22,626	17,134
Add: Depreciation	4,246	4,679	6,377	7,950
(Inc)/dec in Current Asset	2,810	-67	-20,834	200
Inc/(dec) in CL&Provisions	5,332	4,832	10,042	-1,158
Others	-8,100	-2,568	0	0
CF from operating activities	8,207	14,749	18,211	24,126
(Inc)/dec in Investments	-2,836	-7,667	6,805	-850
(Inc)/dec in Fixed Assets	-10,200	-8,232	-39,240	-19,778
Others	-479	-291	50	50
CF from investing activities	-13,515	-16,190	-32,385	-20,578
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	13,239	-41	10,400	200
Dividend paid & dividend tax	-732	-1,599	-2,445	-2,445
Inc/(dec) in Sec. premium	0	0	0	0
Others	-1,383	3,891	2,203	2,203
CF from financing activities	11,124	2,251	10,158	-42
Net Cash flow	5,816	810	-4,016	3,506
Opening Cash	6,187	12,003	12,813	8,797
Closing Cash	12,003	12,813	8,797	12,303

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Share Capital	242	242	242	242
Reserve and Surplus	36,357	46,522	68,907	85,799
Total Shareholders funds	36,599	46,764	69,148	86,041
Total Debt	65,477	65,436	75,836	76,036
Deferred Tax Liability	1,677	3,509	3,509	3,509
Minority Interest / Others	3,309	3,018	3,068	3,118
Total Liabilities	1,07,062	1,18,727	1,51,561	1,68,704
Assets				
Net Block	58,857	61,234	1,11,857	1,22,608
Capital WIP	26,857	32,433	14,673	15,751
Net Fixed Assets (Inc CWIP)	85,714	93,667	1,26,530	1,38,359
Investments	4,730	12,397	5,592	6,442
Inventory	13,864	14,249	30,624	31,487
Debtors	4,505	4,486	8,945	8,682
Loans and Advances	4,809	6,409	6,209	4,359
Other Current Assets	6,195	4,296	4,496	5,546
Cash	12,003	12,813	8,797	12,303
Total Current Assets	41,376	42,253	59,071	62,377
Current Liabilities	24,597	29,316	39,358	38,200
Provisions	161	274	274	274
Total Current Liabilities	24,758	29,590	39,632	38,474
Net Current Assets	16,618	12,663	19,439	23,903
Deferred tax Assets (net)	0	0	0	0
Application of Funds	1,07,062	1,18,727	1,51,561	1,68,704

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adj EPS	19.5	32.9	93.6	70.9
Cash EPS	33.8	51.9	120.0	103.8
BV	151.4	193.5	286.1	356.0
DPS	2.0	6.5	10.0	10.0
Operating Ratios (%)				
EBITDA Margin	16.2	25.2	28.3	24.7
PBT / Total Operating income	5.3	15.2	21.6	16.4
Adj PAT Margin	6.4	10.0	16.1	11.8
Inventory days	131	160	160	160
Debtor days	22	21	25	25
Creditor days	122	134	110	110
Return Ratios (%)				
Adj RoE	12.9	17.0	32.7	19.9
Adj RoCE	7.5	13.8	21.2	14.6
Valuation Ratios (x)				
P/E	34.1	20.3	7.1	9.4
EV / EBITDA	18.0	10.6	5.7	6.3
EV / Net Sales	2.9	2.7	1.6	1.5
Market Cap / Sales	2.2	2.0	1.1	1.1
Price to Book Value	4.4	3.4	2.3	1.9
Solvency Ratios				
Net Debt/EBITDA	4.5	2.6	1.7	1.8
Net Debt / Equity	1.5	1.1	1.0	0.7
Current Ratio	1.7	1.4	1.5	1.6
Quick Ratio	1.1	1.0	0.7	0.8

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21
Coal India	159	160	Hold	98449	20.6	25.1	27.7	7.3	6.0	5.5	4.2	4.1	4.1	42.3	41.7	39.8	34.8	36.7	35.5
Hindalco	506	600	Buy	113729	25.5	58.3	59.8	17.3	7.6	7.4	8.3	5.3	4.8	8.8	14.8	14.5	8.5	17.6	15.5
NMDC	140	175	Buy	40995	21.3	34.7	20.6	6.3	3.9	6.5	4.1	2.6	4.1	27.0	35.1	18.7	21.0	28.6	15.4
JSW Steel	667	725	Hold	161144	32.9	93.6	70.9	20.3	7.1	9.4	10.6	5.7	6.3	13.8	21.2	14.6	17.0	32.7	19.9
Ratnamani	1899	2450	Buy	8872	59.0	76.2	98.0	35.9	27.8	21.6	23.5	17.1	13.8	15.7	19.3	20.1	13.9	15.7	17.2
Graphite Ind.	516	650	Buy	11025	-1.6	31.3	62.7	NA	14.7	7.3	NA	9.2	3.8	-5.4	12.1	23.1	-0.7	12.4	21.2
Jindal Stainless	211	250	Buy	10627	8.6	26.2	22.7	19.3	6.3	7.3	7.8	4.9	5.7	16.0	25.2	18.1	13.0	29.1	20.1
Jindal Stainless Hisar	400	488	Buy	9430	29.5	63.9	58.9	10.4	4.8	5.2	7.7	4.2	4.0	18.6	26.7	20.9	23.2	32.4	22.5
Vardhman Special Steel	267	340	Buy	1084	10.9	24.9	29.5	23.2	10.2	8.6	11.1	6.4	5.6	13.7	21.2	21.1	9.6	18.5	18.3
Tata Metaliks	845	975	Hold	2667	69.9	74.3	80.1	12.4	11.7	10.8	6.6	6.5	5.7	24.6	21.6	19.5	17.0	15.6	14.4

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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