

Performs well...

JSW Steel reported a healthy set of Q2FY21 numbers wherein topline, EBITDA and PAT came in higher than our estimate. On a standalone basis, the company reported sales volume of 4.12 million tonnes (MT) (vs. our estimate of 4.0 MT). As domestic steel demand rebounded from recent lows and gained momentum, JSW Steel reduced the share of exports in its overall volume-mix. In Q2FY21, exports as a percentage of total sales fell to 28% vs. 57% in Q1FY21. Consolidated topline came in at ₹ 19264 crore (up 13% YoY, 64% QoQ), higher than our estimate of ₹ 18331 crore. Topline came in higher than our estimate on the back of better-than-expected realisations. Consolidated EBITDA came in at ₹ 4414 crore (up 95% YoY, 229% QoQ), higher than our estimate of ₹ 3525 crore. Consolidated EBITDA margin came in at 22.9% (up 1150 bps QoQ, 970 bps YoY), higher than our estimate of 19.2%. Healthy EBITDA margins were on account of lower price of imported coal, better operating leverage and savings in procurement costs, fixed overheads. However, this benefit was partially offset by increase in iron ore prices. Ensuing consolidated PAT for Q2FY21 was at ₹ 1595 crore, higher than our estimate of ₹ 1085 crore.

Maintains volume guidance...

For FY21, JSW Steel maintained crude steel production guidance of 16 MT and saleable steel sales guidance of 15 MT. In line with the company's guidance, we model sales volume guidance of 15 MT for FY21E. For FY22E, we model sales volume of 20 MT.

Project capex progressing well as per schedule...

The doubling of steelmaking capacity at Dolvi from 5 million tonnes (MT) to 10 MT is currently under way and is expected to be commissioned by Q4FY21. The Dolvi expansion would enhance JSW Steel's flat product portfolio. At Vijayanagar, the 1.2 million tonnes per annum (MTPA) wire rod mill has been successfully commissioned and trial production is underway. Other key projects at Vijayanagar such as colour coating line, pellet plant and coke oven plant are progressing as per schedule. The 0.3 MTPA colour coating line is likely to be commissioned by March 2021. The construction of 8 MTPA pellet plant (part of the cost saving project) is progressing well and is expected to be commissioned by Q3FY21. The 1.5 MTPA coke oven battery (that is also the part of cost savings project), is set to be commissioned in H2FY22.

Valuation & Outlook

JSW Steel's blended realisations increased ~11%, thereby aiding healthy performance for the quarter. On the back of strength in steel prices, we expect the good performance to continue. Going forward, we model EBITDA margin of 19.4% for FY21E and 20.2% for FY22E. We value the stock on an SoTP basis, thereby arriving at a target price of ₹ 330. We have a **HOLD** rating on the stock.

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	70,225	84,757	73,326	78,779	101,055	17%
EBITDA	14,794	18,952	11,873	15,301	20,423	31%
EBITDA Margin (%)	21.1	22.4	16.2	19.4	20.2	
Adj PAT	6,113	7,554	4,724	5,157	8,095	31%
EPS (₹)	25.3	31.3	19.5	21.3	33.5	
EV/EBITDA (x)	7.7	6.5	11.2	8.7	6.3	
RoCE (%)	17.9	17.6	7.2	9.7	13.1	
RoE (%)	21.8	21.7	12.7	12.2	16.2	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	77,592
Debt-Cons. (FY20) (₹ Crore)	69,015
Cash Cons. (FY20) (₹ Crore)	12,789
EV (₹ Crore)	133,818
52 week H/L	₹ 327 / 133
Equity capital	₹ 241.7 crore
Face value	₹ 1

Key Highlights

- During quarter, JSW Steel achieved capacity utilisation of 86% that was in line with pre-Covid levels of 85% achieved in Q2FY20 (Q1FY21 capacity utilisation at 66%)
- Standalone EBITDA/tonne at ₹ 10126/tonne (₹ 6472/tonne in Q2FY20, ₹ 5104/tonne in Q1FY21) vs. our estimate of ₹ 9000/tonne
- Maintain HOLD recommendation on stock with target price of ₹ 330

Research Analyst

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Exhibit 1: Variance Analysis (Consolidated Performance)

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	19264	18331	17106	13	11782	64	Topline came in higher than our estimate
Other Income	152	125	622	-76	132	15	
Total Operating expense	14850	14806	14841	0	10441	42	
EBITDA	4414	3525	2265	95	1341	229	EBITDA came in higher than our estimate
EBITDA Margin (%)	22.9	19.2	13.2	967 bps	11.4	1153 bps	EBITDA margin came in higher than our estimate
Depreciation	1149	1060	1057	9	1047	10	
Interest	959	1100	1127	-15	1016	-6	
Share of profit/ (loss) of Joint Ventures (net)	47	0	-15	0	-53	-189	
PBT	2505	1490	688	264	-643	PL	
Tax Outgo	910	405	-1848	NA	-61	NA	
PAT for the Group	1595	1085	2536	-37	-582	PL	PAT came in higher than our estimate
Key Metrics							
Standalone Steel Sales (MT)	4.1	4.0	3.6	14	2.8	47	Standalone sales volume came in marginally higher than our estimate
Standalone EBITDA/tonne (₹)	10135.9	9000.0	6472.0	57	5104.0	99	EBITDA/tonne came in higher than our estimate

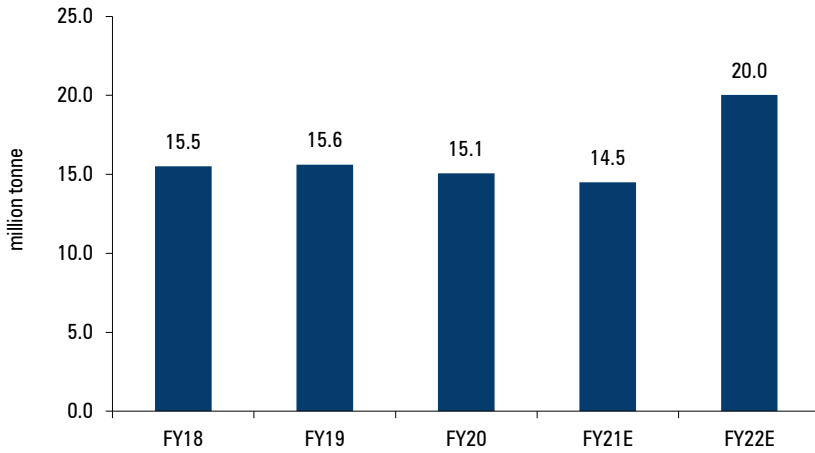
Source: Company, ICICI Direct Research

Conference Call highlights

- The management indicated that hike taken by the company during October 2020 have been absorbed by the market. The auto and white goods negotiations are progressing well and are expected to be completed in October. The company expects ~10-12% price hike in both quarterly and bi-annually contracts. These contracts account for ~20% of the company's overall volume
- During the quarter, the volume of value added and special steel sales was at 51% of total sales
- JSW Steel's net debt/equity was at 1.43x at the end of Q2FY21 (compared to 1.54x at the end of Q1FY21) while net debt to EBITDA was at 4.73x at the end of Q2FY21 (compared to 5.74x at the end of Q1FY21). In Q2FY21, JSW Steel reduced net debt by ₹ 1635 crore
- Post the acquisition of Asian Colour coated Ispat (ACCI) (detailed order still awaited), the downstream capacity of JSW Steel will further increase by 1 MT. Both ACCI's Maharashtra and Haryana plants are operational. JSW Steel's current downstream capacity is 1.7 MT, which is likely to increase to 3.6 MT. Post ACCI's inclusion, JSW Steel's downstream capacity will be increased to 4.5 MT
- Coking coal prices for Q2FY21 were at US\$120/tonne on a CFR basis and is expected to remain flattish for Q3FY21 as well
- Acquisition cost incurred in acquiring four iron ore mines in Odisha such as stamp duty, registration fees and other such costs worth ₹ 817 crore have been classified as intangible assets. Further, the company has also paid upfront premium payment worth ₹ 1290 crore, which would be adjusted against premium payment due to the government
- In Karnataka, the company commenced production from two mines from September 25, 2020 out of the three newly acquired mines. Operations from the third mine are expected to commence soon
- Overall dispatches from captive mines in Q2FY21 accounted for 27% of JSW Steel's overall requirement. Going forward, the company plans to ramp up its captive iron ore production and increase the share of captive feed
- The US plate & pipe mill facility produced 54137 net tonnes of plates with capacity utilisation of 22% in Q2FY21. Pipe mill is under care and maintenance. Sales volume for the quarter was at 51719 net tonnes of plates and 447 net tonnes of pipes. It reported an EBITDA of US\$17.24 million (including one off credits) for Q2FY21
- JSW Steel US Ohio Inc. (Acero), the US based HR coil manufacturing facility produced 4501 net tonnes of HRC during the quarter. Sales volumes for the quarter were at 20837 net tonnes. EBITDA loss for the quarter was US\$10.52 million. As previously indicated, the company has idled the operations to undertake a furnace upgrade project. The upgrades are under way, which should improve reliability of equipment and lower conversion costs
- The Ohio facility's operating EBITDA includes an amount of US\$30.4 million income recognised from one time disputed claims settlement and government grant received
- JSW Steel does not expect net debt to increase in FY21 (excluding that related to Bhushan power acquisition).

Financial story in charts

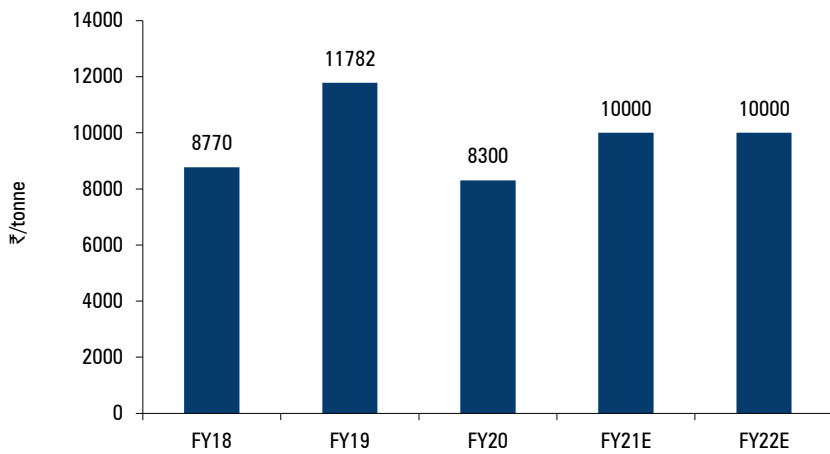
Exhibit 2: Trend in sales volumes



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

Source: Company, ICICI Direct Research

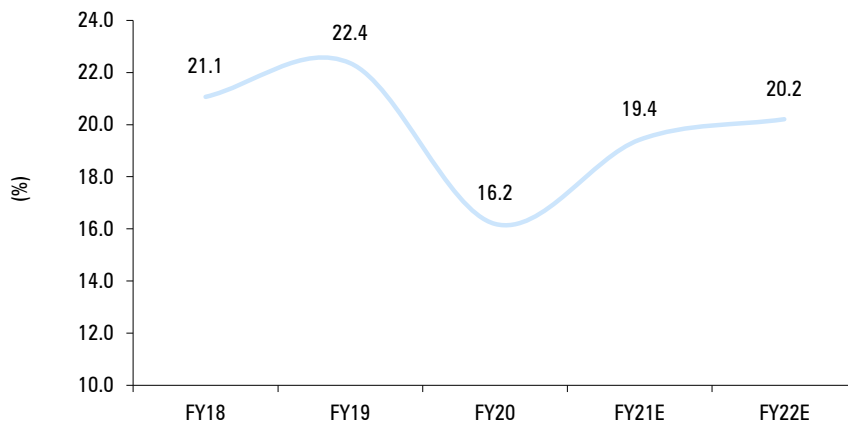
Exhibit 3: Trend in EBITDA/tonne margin level



We model EBITDA/tonne of ₹ 10000/tonne for both FY21E and FY22E

Source: Company, ICICI Direct Research

Exhibit 4: 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

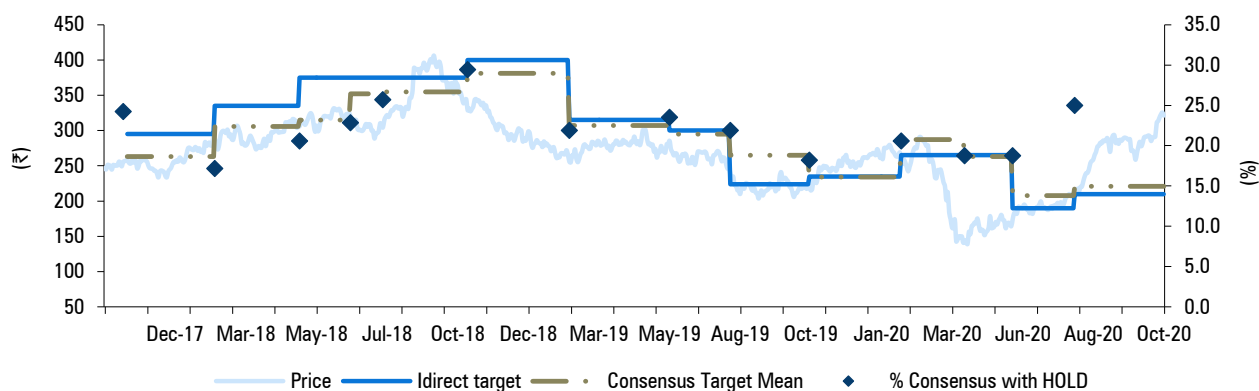
Source: Company, ICICI Direct Research

Exhibit 5: Valuation

	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	12.7	7.7	2.8	21.8	17.9
FY19	84,757	20.7	31.3	23.6	10.3	6.5	2.2	21.7	17.6
FY20	73,326	-13.5	19.5	-37.5	16.4	11.2	2.1	12.7	7.2
FY21E	78,779	7.4	21.3	9.2	15.0	8.7	1.8	12.2	9.7
FY22E	101,055	28.3	33.5	57.0	9.6	6.3	1.5	16.2	13.1

Source: Company, ICICI Direct Research

Exhibit 6: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Top 10 Shareholders

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

Source: Reuters, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20
Promoter	42.7	43.1	44.1
Others	57.3	56.9	55.9
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating income	84,757	73,326	78,779	101,055
Growth (%)	21	-13	7	28
Total Operating Expenditure	65805	61453	63478	80633
EBITDA	18,952	11,873	15,301	20,423
EBITDA Margin (%)	22.4	16.2	19.4	20.2
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	6,952	10,851
Exceptional Item	-30	-805	0	0
Total Tax	3,644	-906	1,750	2,731
Reported PAT Before MI	7,524	4,009	5,202	8,120
Profit/(loss)-JV/MI/Associat	0	-90	-45	-25
Reported PAT After MI	7,524	3,919	5,157	8,095
Growth (%)	23	-48	32	57
Adj PAT after MI	7,554	4,724	5,157	8,095
Adj 'EPS (₹)	31.3	19.5	21.3	33.5

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	7,524	3,919	5,157	8,095
Add: Depreciation	4,041	4,246	4,751	5,174
(Inc)/dec in Current Asset	-6,543	2,810	-3,240	-5,487
Inc/(dec) in CL&Provisions	-3,242	1,794	2,683	5,329
Others	1,221	-2,100	0	0
CF from operating activitie	3,001	10,669	9,351	13,111
(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
CF from investing activitie	-11,369	-19,515	-8,450	-8,650
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
CF from financing activitie	13,492	15,366	-2,342	-842
Net Cash flow	5,124	6,520	-1,441	3,619
Opening Cash	1,063	6,187	12,707	11,266
Closing Cash	6,187	12,707	11,266	14,885

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Share Capital	242	242	242	242
Reserve and Surplus	34,553	37,062	41,977	49,829
Total Shareholders funds	34,795	37,303	42,218	50,071
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
Total Liabilities	95,488	111,304	114,169	121,472
Assets				
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	16,213	20,175
Debtors	7,160	4,505	5,396	6,922
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	11,266	14,885
Total Current Assets	38,370	42,080	43,879	52,985
Current Liabilities	19,292	21,059	23,742	29,071
Provisions	134	161	161	161
Total Current Liabilities	19,426	21,220	23,903	29,232
Net Current Assets	18,944	20,860	19,976	23,753
Deferred tax Assets (net)	117	0	0	0
Application of Funds	95,488	111,304	114,169	121,472

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Adj EPS	31.3	19.5	21.3	33.5
Cash EPS	47.8	33.8	41.0	54.9
BV	143.9	154.3	174.7	207.1
DPS	4.1	2.0	2.0	2.0
Cash Per Share	25.6	52.6	46.6	61.6
Operating Ratios (%)				
EBITDA Margin	22.4	16.2	19.4	20.2
PBT / Total Operating income	13.2	5.3	8.8	10.7
Adj PAT Margin	8.9	6.4	6.5	8.0
Inventory days	123	131	125	125
Debtor days	31	22	25	25
Creditor days	83	105	110	105
Return Ratios (%)				
Adj RoE	21.7	12.7	12.2	16.2
Adj RoCE	17.6	7.2	9.7	13.1
RoIC	18.4	8.1	10.8	15.0
Valuation Ratios (x)				
P/E	10.3	16.4	15.0	9.6
EV / EBITDA	6.5	11.2	8.7	6.3
EV / Net Sales	1.5	1.8	1.7	1.3
Market Cap / Sales	0.9	1.1	1.0	0.8
Price to Book Value	2.2	2.1	1.8	1.5
Solvency Ratios				
Net Debt/EBITDA	2.4	4.7	3.6	2.5
Net Debt / Equity	1.3	1.5	1.3	1.0
Current Ratio	2.0	2.0	1.8	1.8
Quick Ratio	1.2	1.3	1.2	1.1

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			Rating	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
Coal India	115	150	Hold	72037	27.1	22.2	22.9	4.9	6.0	5.8	2.7	4.3	4.4	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	179	225	Buy	40187	18.2	16.4	29.2	10.6	11.7	6.6	5.6	7.6	5.5	7.8	6.0	8.4	6.9	6.0	9.7
Hind Zinc	238	230	Hold	100711	16.1	17.1	21.1	13.8	13.1	10.6	8.2	7.8	5.8	20.8	25.5	27.4	16.9	23.5	24.1
JSW Steel	321	330	Hold	77592	19.5	21.3	33.5	16.4	15.0	9.6	11.2	8.7	6.3	7.2	9.7	13.1	12.7	12.2	16.2
NMDC	84	100	Hold	25705	11.8	11.6	9.0	8.3	8.4	10.8	4.9	5.4	5.9	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1285	1320	Buy	5252	65.8	49.5	66.0	17.1	22.7	17.0	12.5	16.0	11.4	22.2	14.8	19.8	18.0	12.3	14.4
Graphite Ind.	180	200	Hold	3473	2.0	1.0	21.0	80.8	231.3	8.7	NA	NA	3.2	-2.6	-5.4	6.0	1.0	0.3	8.7
Tata Steel	417	450	Hold	50159	41.4	-20.3	56.7	10.1	NA	7.4	9.1	12.6	5.7	5.0	2.0	8.9	6.4	-3.2	8.0

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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