

Retail Equity Research (South India Focus)

JSW Steel Limited

Metals & Mining

BSE CODE: 500228

NSE CODE: JSWSTEEL

Bloomberg CODE: JSTL:IN

SENSEX: 36,958

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs 220 **TARGET** Rs 238 **RETURN** 8%

(Closing: 13-08-19)



KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Quarter below expectations on lower demand

JSW Steel Limited is an integrated steel producer with manufacturing facilities in India with an installed capacity of 18 MTPA. The company produces steel products including hot rolled coils, cold rolled coils, wire rods, galvanized coils and sheets.

- Q1FY20 consolidated revenue declined 3.4% YoY to Rs. 19,812cr (-7.7% to Rs. 17,499cr on standalone basis), missing street estimates by 2.2%.
- Revenue was primarily impacted by lower sales volumes (-3.0% YoY to 3.66MT) amid subdued steel demand. However, company maintained its 16MT volumes guidance for FY20E as it expects domestic steel demand to pick up during the second half of the year with the revival of government expenditure.
- EBITDA margin declined 610bps YoY to 18.8%, mainly driven by losses in overseas business (US and Europe witnessing inventory losses).
- We downgrade our rating to HOLD with a revised target price of Rs. 238 based on 5x FY21E EV/EBITDA (vs. 6x earlier).

Subdued demand weighs on topline

Company registered a decline of 3.4% YoY in Q1FY20 revenue, reaching Rs. 19,812cr. Consolidated sales volumes were down 3.0% YoY to 3.66MT, which is in-line with company's guidance. Global downturn in automobile, energy, manufacturing & construction industries impacted the steel demand during the quarter. In India, economic activities were underpinned by lack of credit availability, leading to muted business sentiment across various end markets. Company's exports revenue increased 34% YoY, representing 17% of total sales. The average realisation declined 7.4% YoY primarily on lower steel prices and unfavorable product mix.

Margins impacted by mix and costs; Capex projects on track

JSW Steel Limited posted Q1FY20 EBITDA of Rs 3,716cr (down 27.2% YoY). EBITDA margin shrank 610bps YoY to 18.8% on weaker product mix and costs. Company remains focused on capex projects (Rs. 48,715cr cumulative capex projected over FY18-21E). All development projects are on track to commission as per the schedule, including 5MTPA capacity expansion at Dolvi, capacity expansion at CRM-1 complex at Vijaynagar works and modernization-cum-capacity enhancement at downstream facilities of JSW Steel Coated Products.

Key concall highlights

- Management maintained its sales volume guidance of 16MT for FY20E, with Indian steel demand expected to grow at 7.1% YoY
- IMF trimmed CY19 Global GDP forecast to 3.2% from 3.3% prior. Recovery will need resolution of trade tensions and monetary policy measures by central banks.
- Higher government spend to ensure timely access to credit will be the key to spur domestic investment demand in FY20E.
- Company operationalized fourth captive iron ore mine while another two mines (out of the total six) will also get operationalized this year. Also, it secured three more captive mines (with resources of 93MT) in Karnataka auctions which will add 2.5MT to annual iron ore production leading to total of 7.5MT next year.

Valuation

Stock is currently trading at 5.4x FY20E EV/EBITDA multiple. We've trimmed our EBITDA estimates by 3% and 7% in FY20E and FY21E respectively and downgrade our rating to HOLD, with a revised target price of Rs. 238 based on forward valuation multiple of 5x FY21E EV/EBITDA (vs. 6x earlier).

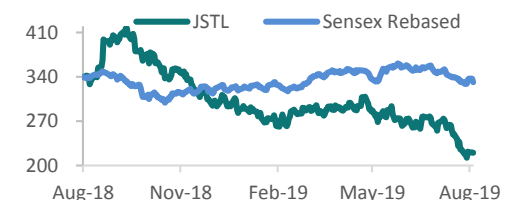
Company Data

Market Cap (cr)	Rs.53,250
Enterprise Value (cr)	Rs.89,818
Outstanding Shares (cr)	241.9
Free Float	42.0%
Dividend Yield	1.9%
52 week high	Rs.427
52 week low	Rs.206
6m average volume	316,240
Beta	1.3
Face value	Rs.1

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	42.6	42.7	42.3
FII's	19.6	18.6	19.0
MFs/Insti	3.7	4.0	4.4
Public	8.5	8.6	8.5
Others	25.6	26.2	25.8
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-20.6%	-18.8%	-35.6%
Absolute Sensex	-0.4%	2.6%	-1.8%
Relative Return*	-20.2%	-21.3%	-33.8%

*over or under performance to benchmark index



Consolidated (Rs. cr)	FY19A	FY20E	FY21E
Sales	84,757	85,110	91,759
Growth (%)	18.5	0.4	7.8
EBITDA	18,952	16,573	18,178
EBITDA Margin (%)	22.4	19.5	19.8
Adj. PAT	7,639	5,752	6,660
Growth (%)	28.4	-24.7	15.8
Adj. EPS	31.7	23.8	27.5
Growth (%)	28.8	-25.0	15.8
P/E	8.8	9.3	8.0
P/B	1.9	1.3	1.2
EV/EBITDA	5.1	5.4	5.0
ROE (%)	22.0	14.4	14.6
D/E	1.0	1.0	0.8

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Revenue	19,812	20,519	(3.4)	22,368	(11.4)
EBITDA	3,716	5,105	(27.2)	4,440	(16.3)
EBITDA margins	18.8	24.9	(610bps)	19.8	(100bps)
Depreciation	1,026	905	13.4	1,084	(5.4)
EBIT	2,690	4,200	(36.0)	3,356	(19.8)
Interest	1,042	887	17.5	1,046	(0.4)
Share of profit from Associate	(19)	21	(190.5)	(33)	(42.4)
Other Income	141	58	166.0	53	143.1
Exceptional Items	-	-	-	-	-
PBT	1,770	3,392	(47.8)	2,330	(24.0)
Tax	762	1,053	(27.6)	835	(8.7)
Minority Interest	(20)	(27)	(25.9)	(28)	(28.6)
Reported PAT	1,028	2,366	(56.6)	1,523	(32.5)
Adjustments	-	-	-	-	-
Adjusted PAT	1,028	2,366	(56.6)	1,523	(32.5)
No. of shares	241.9	241.7	0.1	240.8	0.5
EPS (Rs)	4.3	9.8	(56.6)	6.3	(31.7)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	83,513	94,321	85,110	91,759	1.9	(2.7)
EBITDA	17,008	19,610	16,573	18,178	(2.6)	(7.3)
Margins (%)	20.4	20.8	19.5	19.8	(90bps)	(100bps)
Adj. PAT	6,107	7,138	5,752	6,660	(5.8)	(6.7)
EPS	25.0	29.0	23.8	27.5	(4.8)	(5.2)



PROFIT & LOSS

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	60,536	71,503	84,757	85,110	91,759
% change	30.7	18.1	18.5	0.4	7.8
EBITDA	12,174	14,794	18,952	16,573	18,178
% change	-	21.5	28.1	(12.6)	9.7
Depreciation	3,430	3,387	4,041	4,422	4,676
EBIT	8,744	11,407	14,911	12,152	13,503
Interest	3,768	3,701	3,917	4,172	4,457
Other Income	165	(55)	174	374	599
PBT	5,142	7,651	11,168	8,354	9,645
% change	(317.8)	48.8	46.0	(25.2)	15.5
Tax	1,674	1,538	3,644	2,726	3,147
Tax Rate (%)	32.6	20.1	32.6	32.6	32.6
Reported PAT	3,523	6,214	7,639	5,752	6,660
Adj*	-	(264)	-	-	-
Adj PAT	3,523	5,950	7,639	5,752	6,660
% change	-	68.9	28.4	(24.7)	15.8
No. of shares (cr)	241.5	241.6	240.8	241.9	241.9
Adj EPS (Rs)	14.6	24.6	31.7	23.8	27.5
% change	-	68.8	28.8	(25.0)	15.8
DPS (Rs)	2.3	3.2	4.1	3.1	3.6
CEPS (Rs)	28.8	38.6	48.5	42.1	46.9

CASH FLOW

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	6,953	9,601	11,680	10,173	11,336
Non-cash adj.	3,268	2,103	3,491	3,125	4,673
Changes in W.C	(2,855)	675	(538)	20	(426)
C.F. Operation	7,366	12,379	14,633	13,318	15,582
Capital exp.	(4,390)	(4,676)	(10,162)	(15,745)	(11,011)
Change in inv.	(441)	(352)	(1,176)	-	-
Other invest.CF	(263)	499	(110)	-	-
C.F - Investment	(5,094)	(4,529)	(11,448)	(15,745)	(11,011)
Issue of equity	-	-	-	-	-
Issue/repay debt	1,211	(3,792)	6,881	2,000	-
Dividends paid	(218)	(655)	(933)	(740)	(857)
Other finance.CF	(3,181)	(3,738)	(4,195)	(4,172)	(4,457)
C.F - Finance	(2,188)	(8,185)	1,753	(2,913)	(5,314)
Chg. in cash	84	(335)	4,938	(5,340)	(743)
Closing cash	1,485	1,063	6,187	847	104

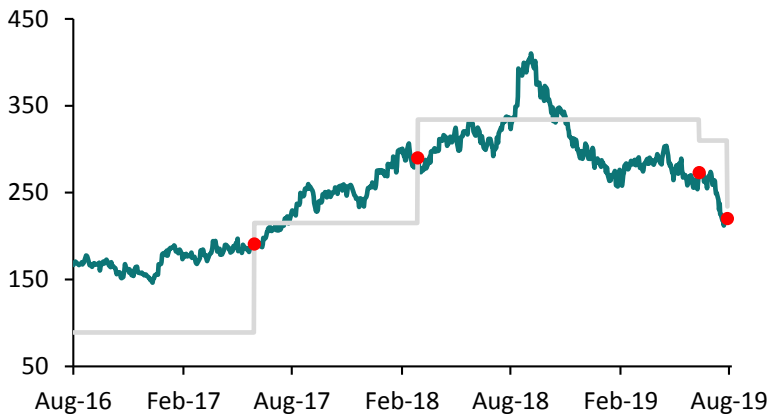
BALANCE SHEET

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	1,485	1,063	6,187	847	104
Accounts Receivable	4,149	4,704	7,160	7,190	7,751
Inventories	11,395	12,594	14,548	14,998	16,223
Other Cur. Assets	4,232	4,831	5,660	5,670	5,889
Investments	1,067	1,157	1,812	1,782	1,777
Gross Fixed Assets	65,391	67,945	76,352	92,097	103,108
Net Fixed Assets	57,786	57,054	61,604	72,928	79,263
CWIP	4,081	5,629	11,540	11,540	11,540
Intangible Assets	1,225	1,115	1,389	1,389	1,389
Def. Tax (Net)	84	48	117	88	101
Other Assets	2,535	3,823	4,897	4,897	4,897
Total Assets	88,041	92,018	114,914	121,328	128,934
Current Liabilities	24,631	26,787	35,675	36,183	37,698
Provisions	97	138	258	258	258
Debt Funds	37,296	33,900	35,989	37,989	37,989
Other Liabilities	3,615	3,659	8,647	7,666	8,116
Equity Capital	301	302	301	301	301
Reserves & Surplus	22,346	27,696	34,494	39,505	45,308
Shareholder's Fund	22,648	27,998	34,795	39,806	45,609
Minority Interest	(246)	(464)	(450)	(574)	(736)
Total Liabilities	88,041	92,018	114,914	121,328	128,934
BVPS (Rs)	94	116	145	165	189

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	20.1	20.7	22.4	19.5	19.8
EBIT margin (%)	14.4	16.0	17.6	14.3	14.7
Net profit mgn.(%)	5.8	8.7	9.0	6.8	7.3
ROE (%)	15.6	22.2	22.0	14.4	14.6
ROCE (%)	14.6	18.6	21.2	15.7	16.3
W.C & Liquidity					
Receivables (days)	25.0	24.0	30.8	30.8	30.8
Inventory (days)	109.2	99.9	105.7	105.7	105.7
Payables (days)	137.6	126.5	117.4	117.4	117.4
Current ratio (x)	0.7	0.8	0.8	0.7	0.7
Quick ratio (x)	0.2	0.2	0.3	0.2	0.2
Turnover & Leverage					
Gross asset T.O (x)	1.9	1.1	1.2	1.0	0.9
Total asset T.O (x)	0.7	0.8	0.8	0.7	0.7
Int. covge. ratio (x)	2.3	3.1	3.8	2.9	3.0
Adj. debt/equity (x)	1.7	1.2	1.0	1.0	0.8
Valuation					
EV/Sales (x)	1.3	1.4	1.1	1.1	1.0
EV/EBITDA (x)	6.4	6.7	5.1	5.4	5.0
P/E (x)	12.1	11.1	8.8	9.3	8.0
P/BV (x)	1.9	2.4	1.9	1.3	1.2

Recommendation Summary



Dates	Rating	Target
24-Jan-12	HOLD	62
27-Jul-12	HOLD	66
21-Nov-13	REDUCE	62
28-Feb-14	REDUCE	71
17-May-14	REDUCE	93
8-Oct-14	HOLD	107
21-Jan-15	HOLD	90
29-Apr-15	HOLD	103
25-Jun-15	HOLD	92
11-Sep-15	HOLD	90
23-Oct-15	HOLD	90
1-Feb-16	REDUCE	89
11 Jan 2017	HOLD	200
14-Jun-17	HOLD	215
14-Mar-18	BUY	334
27-Jun-19	BUY	310
14-Aug-19	HOLD	238

Investment Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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