

Industry
Bloomberg
BSE CODE

Metals
JSTL IN
500228

RATING	BUY
CMP	250
Price Target	300
Potential Upside	20%

Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	437/247
Mkt Capital (Rs Cr)	60346
Free float (%)	42%
Avg. Vol 1M (,000)	5515
No. of Shares (Crs)	242
Promoters Pledged %	49%

Better product and geographical mix helped to maintain realization sequentially....

1QFY20 Result Update

- Consolidated revenue for 1QFY20 came in at Rs.19812cr (down 11.4% YoY), fall in revenue was primarily on account of around 11% fall in domestic steel prices.
- Standalone steel volume for the quarter was at 3.75mt (down 2.1% YoY) and realization was at Rs.46664/t (down 5.76%). Coated products business did volume of 0.45mt (up 4.7% YoY) and realization was at Rs.66444/t (down 5.7% YoY).
- Consolidated EBITDA for the quarter was at Rs.3716cr (down 27.2% YoY) and EBITDA margin was at 18.8% (vs. 24.9% in 1QFY19), fall in margin was due to higher raw material cost and increase in operating expenses.
- Other income for the quarter increased by 143% to Rs.141cr due to higher treasury income driven by higher cash balance and consolidated PAT was at Rs.1028cr (down 56.6% YoY).
- US plate and pipe mill did revenue of USD 98.6mn (up 7.4% YoY) and EBITDA of USD 2mn (down 81.3% YoY) and EBITDA margin of 2.0% (vs. 11.6% in 1QFY19). YoY fall in EBITDA is on account of substantial fall in US steel prices.
- JSW Steel USA Ohio did volume of 71362 net tonnes (vs. 59660 net tonnes in 4QFY19) and EBITDA loss of USD 36mn (vs. loss of USD28mn in 4QFY19).
- JSW Steel Italy did volume of 154764 MT (vs. 104688MT in 4QFY19) and EBITDA loss of Euro 4mn (vs. loss of Euro 3mn in 4QFY19).
- Both JSW Steel USA Ohio and Italy are expected to turn EBITDA positive by the end of FY20.
- Management maintained its FY20 production and sales volume guidance of 16.95mt and 16mt respectively.

View and Valuation

We continue to remain positive on JSW Steel led by significant capacity addition in progress, cost cutting measures, increase in captive iron ore volume (expected to be around 5mt in FY20 vs. 1.8mt in FY19) and its ability to alter between export and domestic sales. However, over near term slow down in auto industry and reducing spread due to falling steel prices and raw material prices remaining at the same level will be a concern. We have reduced our FY20 EBITDA/PAT estimate by 11%/24% as we factor in higher operating expense but maintain our FY21 estimate. We value the stock at **Rs.300 (7x FY20e EV/EBITDA) and maintain BUY.**

Key Risks to our rating and target

- High volatility in coking coal and iron ore prices may impact gross margin.
- Lower than expected volume growth.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	55605	71933	84757	81477	93657
EBITDA	12174	14794	18952	14817	19754
EBIT	8744	11407	14911	10609	15355
PAT	3354	6214	7639	4554	7382
EPS (Rs)	14	26	32	19	31
EPS growth (%)	-798%	0.85	23%	-40%	62%
ROE (%)	15%	22%	22%	12%	17%
ROCE (%)	16%	19%	23%	14%	17%
BV	94	116	144	158	183
P/B (X)	2.0	2.5	2.0	1.6	1.4
P/E (x)	13.52	11.2	9.3	13.3	8.2

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Higher operating expenses led the sequential fall in EBITDA margin....

1QFY20 Results

Consolidated

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	20519	21552	20318	22368	19812	-3.4%	-11.4%	71,933	84,757	17.8%
Other Income	58	56	37	53	141	143%	166.0%	167	204	22%
Total Income	20577	21608	20355	22421	19953	-3%	-11.0%	72,100	84,961	17.8%
COGS	10213	10930	10157	12076	10362	1%	-14.2%	39,025	43,206	10.7%
Staff Cost	535	586	667	701	759	42%	8.3%	1,843	2,489	35.1%
Other Exp.	3058	3234	3088	3507	3273	7%	-6.7%	16,271	13,057	-19.8%
Expenditure	15414	16646	15817	17928	16096	4%	-10.2%	57,139	65,805	15.2%
EBITDA	5105	4906	4501	4440	3716	-27%	-16.3%	14,794	18,952	28.1%
EBITDAmargin	24.9%	22.8%	22.2%	19.8%	18.8%	-25%	-5.5%	20.6%	22.4%	8.7%
Depreciation	905	974	1078	1084	1026	13%	-5.4%	3,387	4,041	19.3%
EBIT	4200	3932	3423	3356	2690	-36%	-19.8%	11,407	14,911	30.7%
Interest	887	963	1021	1046	1042	17%	-0.4%	3,701	3,917	5.8%
PBT	3371	3025	2439	2363	1789	-47%	-24.3%	7,873	11,198	42.2%
Excpt. Item	0	0	0	0	0	-	-	(264)	-	-
Tax	1053	936	820	835	762	-28%	-8.7%	1,538	3,644	136.9%
PAT	2366	2126	1624	1523	1028	-57%	-32.5%	6,113	7,639	25.0%

Lower volume on account of temporary slowdown in public investment and credit availability issues

Consolidated volume for the quarter was at 3.66mt (down 2.7% YoY) and standalone volume at 3.75mt was down 2.1% YoY. Slow down in public investment and auto industry and credit availability issues have led to subdued steel demand thereby impacting the volume across industry. Company tried to mitigate the slowdown in domestic demand by increasing its export to 0.62mt (up 34% YoY) and exports were at 17% of the total volume. Management expects pick up in auto sales on the back of festive season and pre buying before BS VI, and pick up in govt. spending which got impacted by general election will lead to revival in steel demand from 2HFY20 onwards.

Realizations fell on YoY basis due to lower steel prices but were stable sequentially

Standalone realization for the quarter was at Rs.46664/t (down 5.76% YoY and up 1.6% QoQ), the YoY fall was on account of around 11% fall in domestic steel prices, though steel prices fell on QoQ basis as well but due to higher share of export, better product mix and execution of long term orders company was able to post slight improvement in realization on QoQ basis. However, realization is expected to fall in 2QFY19 as recent fall in steel prices would reflect in the next quarter's realization.

JSW Coated EBITDA margin improves

JSW Coated did sales volume of 0.45mt (up 4.7% YoY) and realization at Rs.66444/t (down 5.7% YoY). Revenue for the quarter was at Rs.2990cr (down 1.4% YoY) and EBITDA was at Rs.172cr (up 41% YoY), EBITDA margin improved to 5.8% from 4.0% in 1QFY19. We assume improvement in spread might have been the reason for better margin as new HRC (raw material) inventory would have been taken in at lower prices due to recent fall in recent prices.

US plate and pipe mill margin impacted by falling steel prices in US

US plate mill did a volume of 57032 net tonnes (down 13.3% YoY) and pipe mill did volume of 23195 net tonnes (up 59.2% YoY), plate mill capacity utilization was at 36% (vs. 35% in 1QFY19) and pipe mill utilization was at 17% (vs. 10% in 1QFY19). Revenue for the quarter was at USD 98.6mn (up 7.4% YoY) and EBITDA of USD 2mn (down 81.3% YoY), EBITDA margin was at 2% (vs. 11.6% in 1QFY19). Significant fall in steel prices in US has led to fall in EBITDA. North American HRC prices have fallen to USD 615/t in 1QFY20 vs. USD 917/t in 1QFY19.

USA Ohio and Italy subsidiary expected to turn EBITDA positive by end of FY20

JSW Steel USA Ohio did sales volume of 71362 net tonnes (up 20% QoQ), it incurred an EBITDA loss of USD 36mn (vs. loss of USD 28mn in 4QFY19). JSW Italy did sales volume of 154764 MT (up 48% QoQ) and did EBITDA loss of Euro 4mn (vs. loss of Euro 3mn in 4QFY20). Both the subsidiary are expected to turn EBITDA positive by the end of FY20.

Concall highlights

- Domestic steel demand has grown YoY but have fallen QoQ by 5%, demand continues to remain impacted by slow down in auto, slow down in public investment and lower credit availability.
- Management expects steel demand to pick up in 2HFY20 on the back of expected pick up in govt. spending and improvement in auto demand due to festive season and pre buying before BS VI.
- Correction in domestic steel price has happened on the back of fall in international steel prices and slow down in domestic demand. Management doesn't expect further fall in steel prices as the landed cost of imports is almost at par with the current domestic prices.
- Steel prices have fallen but prices of coking coal and iron ore have remained around the same level or have increased QoQ.
- Company was able to maintain realization on QoQ basis due to higher share of export, hedging gains, execution of some long term contracts which are fixed at higher prices and higher VAP in the volume. However, realization fell by 7% YoY.
- Realization is expected to moderate in 2QFY20 as recent fall in steel prices will come in 2QFY19.
- 66% of imports into the country were from FTA countries.
- CoP in the quarter increased by 1% YoY and was down 2% QoQ. Higher captive iron ore, increase in captive coke and start of iron ore pipe conveyor belt helped in QoQ reduction in cost. Company saved Rs.155/t of iron ore due to pipe conveyor belt, which transported 10000-15000t/day and is expected to go up to 30000/day in next 34 months.
- Total net debt of the company increased slightly from Mar'19 level to Rs.47767cr, weighted average cost of debt has come down to 6.9% (vs. 7.2% in Mar'19). Company's debt to ebitda is at 2.72x (vs.2.43x in Mar'19), debt to equity at 1.35x.
- Acceptance on revenue account is USD1215mn and the capital account is USD345mn.
- The USA Ohio and the Italy subsidiary both are expected to turn EBITDA positive by the end of FY20.
- At Monnet shut down is planned in 2QFY20, DRI and pellet plant are giving good margin and by operating on integrated basis company is incurring losses because the TMT prices have fallen significantly. Therefore, management has decided to take the shutdown. In next 2-3 months company will be able to achieve the strengthening of the TMT mill. The plant will be fully operational from end of Oct'19.
- Company maintained guidance of 4.5-5mt of captive iron ore in FY20 and Steel production is expected at 16.95mt and sales at 16mt for FY20.
- FY20 capex for Indian business is at Rs.15700cr and in 1QFY20 Rs.2890cr has been incurred. Capex for international business is set at USD350mn out of which USD180mn is for US.

Exhibit: Standalone net sales and realization trend

higher export and VAP helped in sustaining realization on QoQ basis....

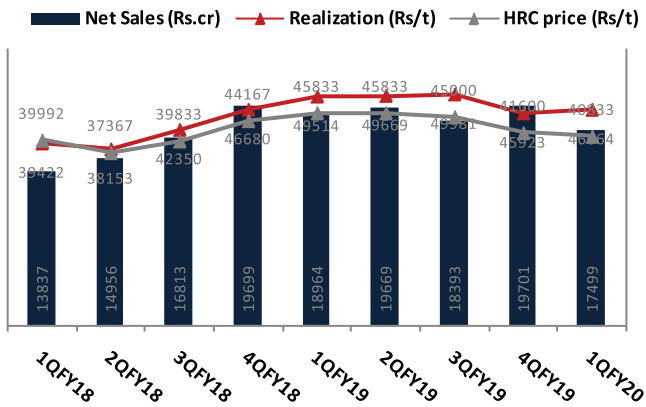


Exhibit: Standalone COGS and gross margin trend

gross margin improved QoQ but remained lower YoY....

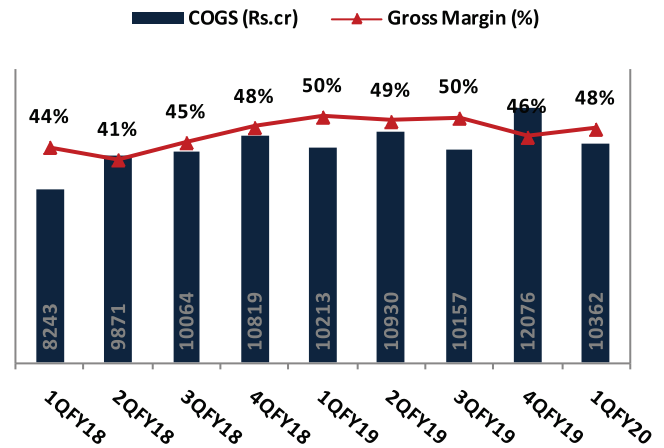


Exhibit: Iron ore and coking coal price trend

iron ore prices remain stable but coking coal prices have seen some moderation....

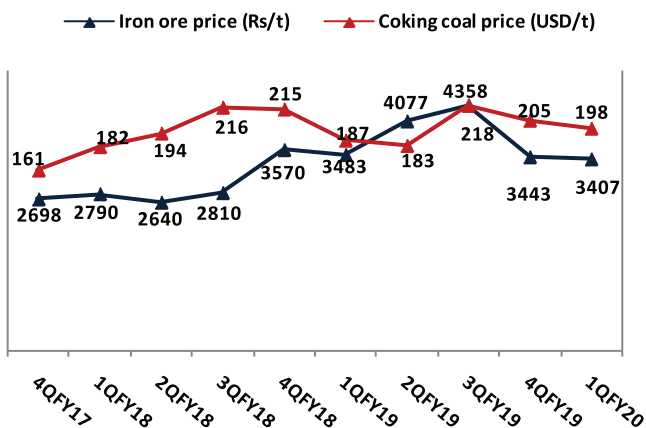


Exhibit: Standalone sales volume and EBITDA/t

EBITDA/t remained in the range of Rs.10000/t....

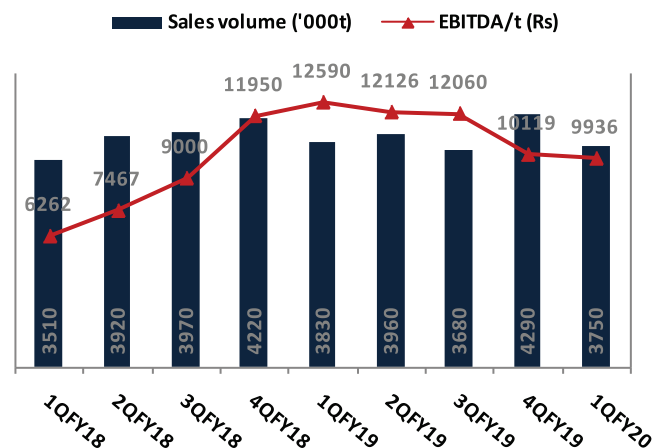


Exhibit: Coated products sales volume and EBITDA/t

coated business's EBITDA/t improved on the back of lower input cost (Hot rolled coils)....

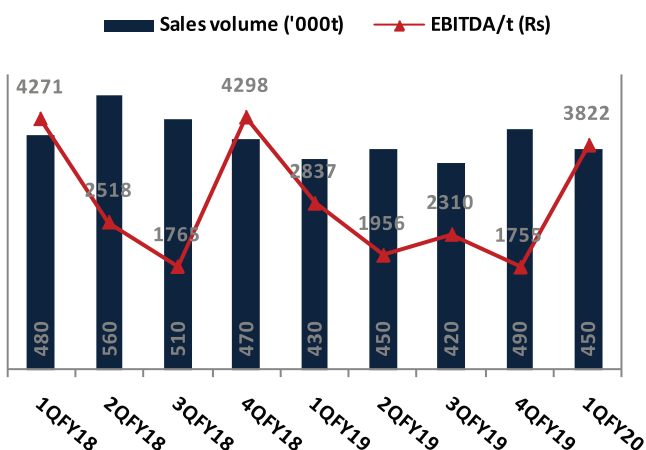
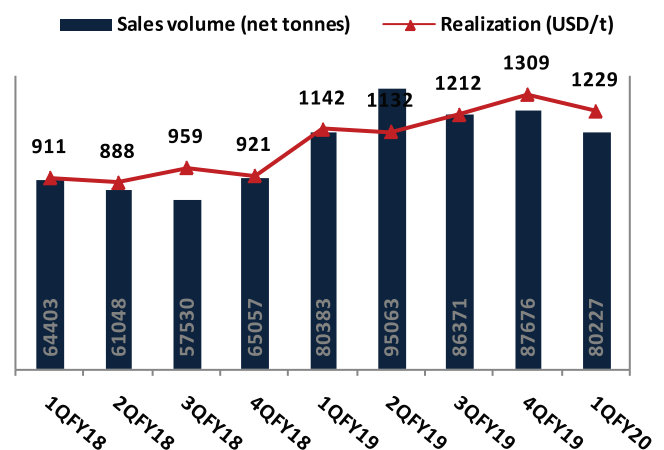


Exhibit: US plate and pipe volume and realization

realization starting to decline as lower steel prices starts coming in....



Financial Details (Consolidated)

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	1,067	1,067	301	301	302	301	301	301
Reserves	20,871	21,987	18,665	22,346	27,696	34,494	37,859	44,051
Networth	21,938	23,054	18,965	22,648	27,998	34,795	38,160	44,352
Debt	31,590	34,885	37,811	37,296	33,900	35,989	41,312	49,233
Other Non Cur Liab	3,093	3,836	2,740	3,712	3,797	8,905	8,905	8,905
Total Capital Employed	53,528	57,939	56,777	59,944	61,898	70,784	79,472	93,585
Net Fixed Assets (incl CWIP)	54,884	58,856	62,455	62,221	63,091	73,693	84,127	99,772
Non Cur Investments	595	599	1,195	1,067	1,157	1,812	1,812	1,812
Other Non Cur Asst	18	268	1,996	1,892	2,881	3,925	3,925	3,925
Non Curr Assets	62,190	67,102	67,728	66,779	68,826	81,359	92,600	108,503
Inventory	8,155	11,009	8,321	11,395	12,594	14,548	13,985	16,076
Debtors	2,292	2,500	2,727	4,149	4,704	7,160	6,883	7,912
Cash & Bank	663	1,913	1,020	1,485	1,063	6,187	4,845	4,489
Other Curr Assets	-	-	2,230	3,198	3,599	2,461	2,366	2,719
Curr Assets	15,450	18,817	14,737	21,251	23,189	33,543	31,927	35,528
Creditors	11,699	14,253	12,758	14,352	15,944	16,159	17,858	20,528
Provisons (both)	422	447	265	299	322	392	387	406
Other Curr Liab	8,790	9,438	1,044	1,230	1,564	1,976	1,900	2,183
Curr Liabilities	20,852	24,047	23,143	24,631	26,787	35,675	36,600	41,991
Net Curr Assets	(5,402)	(5,230)	(8,406)	(3,380)	(3,598)	(2,132)	(4,673)	(6,463)
Total Assets	77,640	85,919	82,465	88,041	92,018	114,914	124,527	144,032

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	51,220	52,972	41,546	55,605	71,933	84,757	81,477	93,657
Change (%)	34%	3%	-22%	34%	29%	18%	-4%	15%
Other Income	86	111	180	152	167	204	291	200
EBITDA	9,165	9,402	6,401	12,174	14,794	18,952	14,817	19,754
Change (%)	41%	3%	-32%	90%	22%	28%	-22%	33%
Margin (%)	18%	18%	15%	22%	21%	22%	18%	21%
Depr & Amor.	3,183	3,434	3,323	3,430	3,387	4,041	4,208	4,399
EBIT	5,983	5,968	3,078	8,744	11,407	14,911	10,609	15,355
Int. & other fin. Cost	3,048	3,493	3,601	3,768	3,701	3,917	4,049	4,825
EBT	3,021	2,586	(342)	5,128	7,873	11,198	6,851	10,730
Exp Item	(1,713)	(47)	(2,125)	-	(264)	-	-	-
Tax	920	819	(1,966)	1,674	1,538	3,644	2,382	3,434
Minority Int & P/L share of Ass.	(37)	(73)	21	(100)	(59)	(145)	(145)	(145)
Reported PAT	452	1,797	(481)	3,354	6,214	7,639	4,554	7,382
Adjusted PAT	2,165	1,844	1,645	3,354	6,478	7,639	4,554	7,382
Change (%)	-53%	298%	-127%	-798%	85%	23%	-40%	62%
Margin(%)	1%	3%	-1%	6%	9%	9%	6%	8%

Financial Details (Consolidated)

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	2%	8%	-3%	15%	22%	22%	12%	17%
ROCE	12%	11%	6%	16%	19%	23%	14%	17%
Asset Turnover	0.66	0.62	0.50	0.63	0.78	0.74	0.65	0.65
Debtor Days	16	17	24	27	24	31	31	31
Inv Days	58	76	73	75	64	63	63	63
Payable Days	83	98	112	94	81	70	80	80
Int Coverage	2.0	1.7	0.9	2.3	3.1	3.8	2.6	3.2
P/E	55.4	12.2	(64.4)	13.5	11.2	9.3	13.3	8.2
Price / Book Value	1.1	1.0	1.6	2.0	2.5	2.0	1.6	1.4
EV/EBITDA	5.6	5.7	10.2	6.3	6.8	5.0	6.2	5.0
FCF per Share	(13.1)	0.8	7.2	12.1	31.6	18.3	(4.2)	(9.4)
Div Yield	1.0%	1.2%	0.9%	0.4%	0.8%	1.1%	1.6%	1.6%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	1,308	2,539	(2,468)	5,128	7,609	11,168	6,851	10,730
(inc)/Dec in Working Capital	(3,520)	(1,175)	491	(3,866)	(1,101)	(1,581)	906	1,261
Non Cash Op Exp	5,209	6,311	9,081	6,341	7,311	7,676	8,257	9,223
Int Paid (+)	2,290	2,631	3,075	3,022	3,500	3,582	4,049	4,825
Tax Paid	(404)	(773)	(207)	(237)	(1,440)	(2,630)	(2,382)	(3,434)
others								
CF from Op. Activities	2,593	6,903	6,897	7,366	12,379	14,633	13,633	17,781
(inc)/Dec in FA & CWIP	(5,763)	(6,721)	(5,166)	(4,435)	(4,736)	(10,206)	(14,642)	(20,044)
Free Cashflow	(3,170)	182	1,731	2,931	7,643	4,427	(1,009)	(2,263)
(Pur)/Sale of Inv	17	30	(9)	(331)	(37)	(162)	(503)	(85)
others								
CF from Inv. Activities	(5,671)	(6,397)	(3,854)	(5,094)	(4,529)	(11,448)	(15,145)	(20,129)
inc/(dec) in NW	-	-	57	49	-	-	-	-
inc/(dec) in Debt	6,029	2,737	238	1,025	(3,992)	6,881	5,323	7,921
Int. Paid	(2,413)	(2,563)	(3,125)	(3,045)	(3,511)	(3,815)	(4,049)	(4,825)
Div Paid (inc tax)	(315)	(344)	(320)	(218)	(655)	(933)	(1,189)	(1,189)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	3,300	(169)	(3,151)	(2,188)	(8,185)	1,753	85	1,906
Inc(Dec) in Cash	222	337	(108)	84	(335)	4,938	(1,427)	(441)
Add: Opening Balance	302	579	944	833	917	582	6,187	4,845
Closing Balance	575	913	833	917	582	5,581	4,760	4,404

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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