

Industry
Bloomberg
BSE CODE

Metals
JSTL IN
500228

Sequential drop in HRC prices impacting margins as well as volumes..

RATING	BUY
CMP	262
Price Target	295
Potential Upside	13%
Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	326/202
Mkt Capital (Rs Cr)	61469
Free float (%)	42%
Avg. Vol 1M (,000)	8212
No. of Shares (Cr)	242
Promoters Pledged %	50%

- JSWSTEEL reported consolidated revenue of Rs. 17572 Cr. (vs our estimate of Rs. 19253 Cr.) down by 18.5% YoY largely on account of decline in domestic HRC steel prices during the quarter.
- Consolidated sales volume stood at 3.56 MT with a decline of 9%YoY basis and 3% QoQ. Weaker activity levels on the back of muted investment spend, Credit Squeeze and Slowdown in the automotive sector resulted to overall subdued steel demand.
- Standalone Business: Production volumes of Crude steel and Salable steel stood at 3.84 MT and 3.60 MT reduced by 8% and 9% YoY basis respectively.
- Realization during the quarter reduced due to decline in domestic HRC prices (down 20% YoY and 10% QoQ).
- Exports increased by 68% YoY to 1.09 MT which accounted for 31% of consolidated salable steel sales in 2QFY20 to partially mitigate the headwind of weak domestic demand.
- EBITDA on consolidated level stood at Rs. 2731 Cr. with an EBITDA margin of 15.5% (down by 330bps on QoQ basis).
- Consolidated PAT during the quarter stood at Rs. 2551 Cr. with a growth of 22.1% on account of outstanding deferred tax liability and written back an amount of Rs. 2150 Cr.
- Net Debt level stood at Rs. 49640 with an interest cost of 6.82%. Net Debt to EBITDA and Net Debt to Equity stood at 2.90 times and 1.19 times respectively.
- CAPEX guidance revised by the management from Rs. 15700 Cr. in FY20 to Rs. 11000 Cr. and the guideline of project completion in FY20 is now expected to extend till 1HFY21.
- Guidance reviewed considering the outlook of 2QFY20, volumes achieved will be 97% (adjusted by 3%) of the guidance both for production as well as sales volumes

View and Valuation

Despite the challenging environment as lower demand of steel products due to slowdown in automobile industry, prolonged monsoon and continuous decline in HRC prices management pushed its product outside India which contributes 31% of total revenue. Management revised guidance for volume of 97% for both production as well as sales will help to achieve better volumes in 2HFY20. We value our stock at Rs. 295 with (7.5x EV/EBITDA FY21E) and maintain BUY.

Key Risks to our rating and target

- Increase in coking coal prices.
- Decrease in Steel prices .

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	55,605	71,933	84,757	74,197	83,195
EBITDA	12,174	14,794	18,952	11,960	15,202
EBIT	8,744	11,407	14,911	7,716	10,969
PAT	3,354	6,214	7,639	6,579	4,822
EPS (Rs)	14	26	32	27	20
EPS growth (%)	(798)	85	23	(14)	(27)
ROE (%)	15	22	22	16	11
ROCE (%)	16	19	23	10	13
BV	94	116	144	166	181
P/B (X)	2.00	2.49	2.03	1.56	1.63
P/E (x)	13.52	11.21	9.27	9.56	14.79

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Lower realization hampered margins..

2QFY20 Results

Consolidated

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	21,552	20,318	22,368	19,812	17,572	-18.5%	-11.3%	71,933	84,757	17.8%
Other Income	56	37	53	141	156	179%	10.6%	167	204	22%
Total Income	21608	20355	22421	19953	17,728	-18%	-11.2%	72,100	84,961	17.8%
COGS	10930	10157	12076	10362	9,410	-14%	-9.2%	39,025	43,206	10.7%
Staff Cost	586	667	701	759	653	11%	-14.0%	1,843	2,489	35.1%
Other Exp.	3234	3088	3507	3273	3,229	0%	-1.3%	16,271	13,057	-19.8%
Expenditure	16646	15817	17928	16096	14,841	-11%	-7.8%	57,139	65,805	15.2%
EBITDA	4906	4501	4440	3716	2,731	-44%	-26.5%	14,794	18,952	28.1%
EBITDAmargin	22.8%	22.2%	19.8%	18.8%	15.5%	-32%	-17.1%	20.6%	22.4%	8.7%
Depreciation	974	1078	1084	1026	1,057	9%	3.0%	3,387	4,041	19.3%
EBIT	3932	3423	3356	2690	1,674	-57%	-37.8%	11,407	14,911	30.7%
Interest	963	1021	1046	1042	1,127	17%	8.2%	3,701	3,917	5.8%
PBT	3025	2439	2363	1789	703	-77%	-60.7%	7,873	11,198	42.2%
Excpt. Item	0	0	0	0	-	-	-	(264)	-	-
Tax	936	820	835	762	(1,848)	-297%	-342.5%	1,538	3,644	136.9%
PAT	2126	1624	1523	1028	2,560	20%	149.0%	6,214	7,639	22.9%

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

Consolidated volume in 2QFY20 stood at 3.56 MT (down 9% YoY) and standalone volume at 3.60MT (down 9% YoY). Slowdown 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 1.09 MT (up 68% YoY) and exports were at 31% of the total revenue. Management has revised the overall volume guidance for FY20 adjusted by 3% with the volumes achieved to be 97% on the back of performance of 1HFY20. However, 2HFY20 is expected to be same as that of 2HFY19 as per management.

Realizations fell on YoY basis due to lower steel prices

Standalone realization for the quarter was at Rs. 43111/t (down 13.20% YoY and 8.7% QoQ), the YoY fall was on account of around 19.8% fall in domestic HRC prices also steel prices fell on QoQ basis as well. However, realization is expected to fall in 3QFY20 as recent fall in steel prices would reflect in the next quarter's realization.

JSW Coated EBITDA margin improves

JSW Coated reported sales volume of 0.43 MT (down 4.4% YoY) and realization at Rs. 64837/T (down 7.2% YoY). Revenue in 2QFY20 was at Rs. 2788 Cr. (down 11.3% YoY) and EBITDA was at Rs.3558/T (up 82% YoY). EBITDA margin improved to 5.5% from 2.8% in 2QFY19. However, sequentially it was reduced from 5.8% on account of reduced volumes.

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

US based plate mill factory produced 58106 T (down 28% YoY) of plates with the capacity of 25% and the sales volume for the quarter was 53333 T plates (down 29% YoY). Revenue in 2QFY20 was at \$ 59.12 million (down 45% YoY) and EBITDA loss of \$ 11.2 million mainly due to lower realization and inventory write-down of ~\$ 35 million.

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

US based HRC manufacturing facility produced 87337 T of HRC and sold 98063 T in 2QFY20. It reported an EBITDA loss of \$ 31 million, which includes an inventory write-down of \$13.2 million. Both the subsidiary is expected to turn EBITDA positive by the end of FY20.

Concall highlights

• Macro Level

- At global level, steel demand remain lower adjusted the production yet China continues to produce more and more increased the raw material demand from China.
- Imports of iron ore went up by 10% YoY to 65 million tons more demand from iron ore at the same time more demand for coal, leads to disruption in the market raw material prices were not corrected but steel prices got corrected because of slower demand other than China.

• Market Scenario

- Domestic market also shown weaker demand trend due to credit policy for banking sector, week government spending, falling consumer demand and prolonged monsoon.
- Consumption of steel reduced to -1% from 6% in March 2019 steadily steel demand falling in India.
- Despite the challenging circumstances where exports from FTA country is again a concern, went up to 65% in 2QFY20.

• Business Understanding

- Production no's at JSW steel reduced by 3% QoQ and 8% YoY to 3.84 million tons.
- Drop in production no's due to monsoon in Dolvi, slowdown in the automobile sector (affected Salem unit) and also plant shutdown at Vijaynagar unit which moderated the production no's in line with the market demand.
- 4 Wholly owned subsidiary got NCLT approval for merger into parent company and the effect of the merger is in books of a/cs will be seen in Standalone business whereas consolidated no's will remain same.
- 4 wholly owned subsidiary are Dolvi minerals and metals pvt. Ltd., Dolvi coke projects ltd., JSW steel processing center ltd., JSW steel saval ltd.

• Operational Efficiency

- Sales volumes at Standalone business reduced by 6% QoQ and 9% YoY to 3.6 million.
- Domestic demand being poorer management pushed it's product overseas which increased the Exports by 68% on YoY basis which effectively contributes 31% of total Sales i.e. 1.09 million tons.
- Cost during the quarter came down by 9% YoY basis and 16% on sequential basis due to reduction in global as well as domestic steel prices.
- EBITDA margin per ton stood at Rs, 7768/ ton.
- GST incentive scheme in Dolvi minerals and metals pvt. Ltd., Dolvi coke projects ltd. For capacity expansion from 3.3 million to 5 million tons will receive some approvals. The capacity expansion was over in May 2016 but the benefits are not booked in the books of a/cs due to certain pending approvals from the ministry of industry government of Maharashtra.
- Approval has inplaced during the quarter amounted to Rs. 512 Cr. from May 2016- Sept 2019. Within which Rs. 466 Cr. are till 31-March-19 and remaining Rs. 46 Cr. are till 30-Sept-19. Moreover, the incentive will continue to arrive in future going ahead.
- New tax regime of reduced tax rate is applicable to JSW coated and JSW industrial and gases ltd whereas rest all other will claim the MAT credit till date and then will shift to reduced tax rate as per new tax regime.
- Volume guidance reviewed to 97% for 2HFY20 adjusted by 3% considering the performance at 1HFY20. 2HFY20 is expected to be same as that of 2HFY19.
- CAPEX guidance also revised from Rs. 15700 Cr. to Rs. 11000 Cr. and the projects expected to be completed in FY20 will further dragged for completion till 1HFY21.
- Debt to EBITDA stood at 3.23 times and Debt to Equity at 1.36 times.
- Net debt level stood at Rs. 49640 Cr. with an interest rate of 6.82%, revenue acceptance of USD \$ 1252 million and CAPEX acceptance of USD \$ 474 million.

• Subsidiary Business Understanding

- EBITDA on the standalone business stood at Rs. 2296 Cr. with an EBITDA margin of 18.01%.
- JSW industries and Gases contributed Rs. 271 Cr. at EBITDA level, while overseas companies continue to drag the overall performance.
- US plated and pipes mill was in loss of USD \$ 11.2 million (USD \$ 3.5 million of inventory loss) due to decline in steel prices in US so the capacity utilization remains lower.
- Capacity expansion like modernization of Plate and pipe mills of which part 1 was completed and benefit of the same is expected to arrive in 3QFY20.
- Coal mines had an EBITDA of USD \$ 1.8 million.
- Italy business was at loss of 0.9 million Euros.
- Overall at an aggregate level, Rs. 332 Cr. losses from overseas business during the quarter.
- EBITDA at consolidated business stood at Rs. 2731 Cr.

Exhibit: Standalone net sales and realization trend

Higher export and VAP provided cushion from further dip in realization..

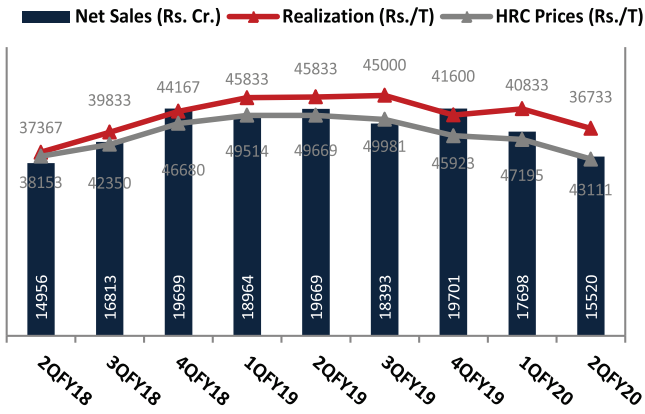


Exhibit: Standalone COGS and gross margin trend

Higher inventory level reduced the gross margins in 2QFY20.

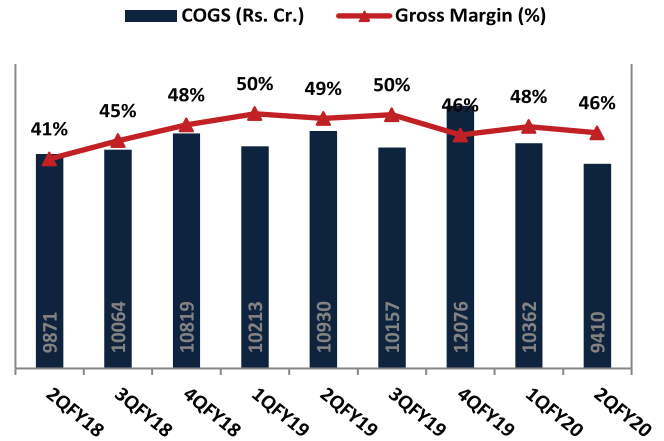


Exhibit: Iron ore and coking coal price trend

Iron ore prices fall but coking coal prices remained flat on QoQ basis....

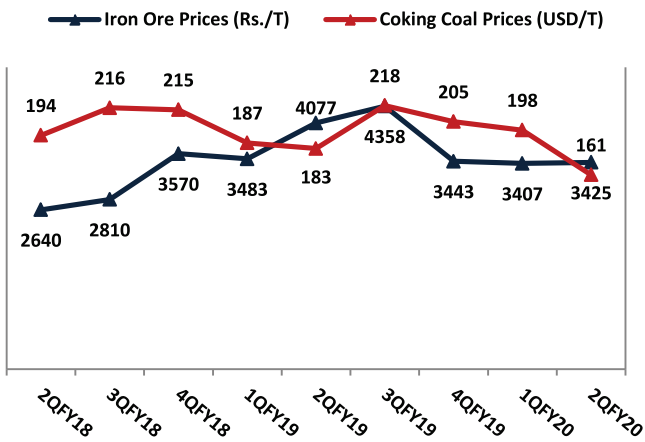


Exhibit: Standalone sales volume and EBITDA/t

EBITDA/t declined with the deep in realization..

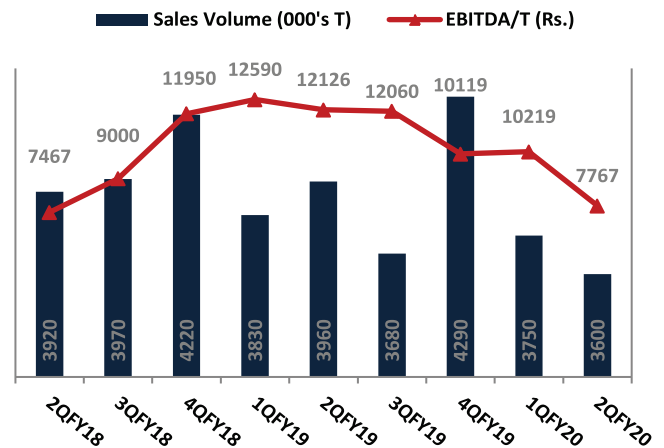


Exhibit: Coated products sales volume and EBITDA/t

Coated business's EBITDA/t decline with the reduced HRC price.

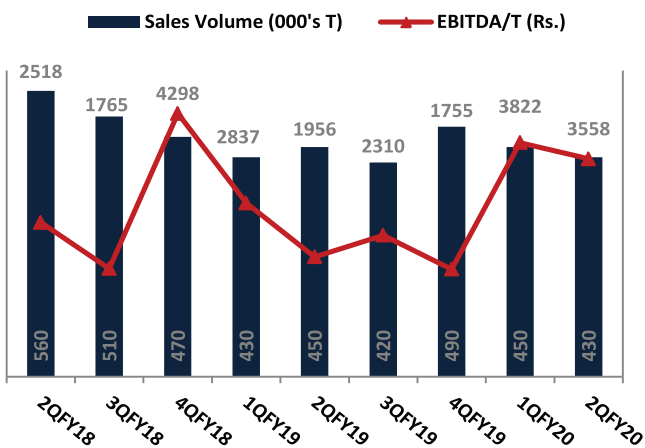
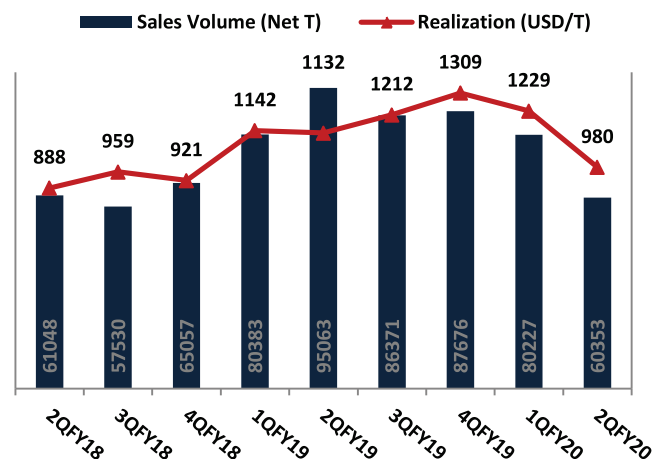


Exhibit: US plate and pipe volume and realization

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



Financial Details (Consolidated)

Balance Sheet

Fig in Rs Cr

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	39,884	43,517
Networth	21,938	23,054	18,965	22,648	27,998	34,795	40,185	43,818
Debt	31,590	34,885	37,811	37,296	33,900	35,989	43,210	51,020
Other Non Cur Liab	3,093	3,836	2,740	3,712	3,797	8,905	7,511	7,511
Total Capital Employed	53,528	57,939	56,777	59,944	61,898	70,784	83,396	94,839
Net Fixed Assets (incl CWIP)	54,884	58,856	62,455	62,221	63,091	73,693	84,090	99,902
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	92,564	108,633
Inventory	8,155	11,009	8,321	11,395	12,594	14,548	12,735	14,280
Debtors	2,292	2,500	2,727	4,149	4,704	7,160	6,268	7,028
Cash & Bank	663	1,913	1,020	1,485	1,063	6,187	5,010	1,506
Other Curr Assets	-	-	2,230	3,198	3,599	2,461	2,154	2,416
Curr Assets	15,450	18,817	14,737	21,251	23,189	33,543	29,293	28,649
Creditors	11,699	14,253	12,758	14,352	15,944	16,159	16,262	18,235
Provisons (both)	422	447	265	299	322	392	375	390
Other Curr Liab	8,790	9,438	1,044	1,230	1,564	1,976	1,730	1,940
Curr Liabilities	20,852	24,047	23,143	24,631	26,787	35,675	33,378	37,361
Net Curr Assets	(5,402)	(5,230)	(8,406)	(3,380)	(3,598)	(2,132)	(4,085)	(8,711)
Total Assets	77,640	85,919	82,465	88,041	92,018	114,914	121,857	137,283

Income Statement

Fig in Rs Cr

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	74,197	83,195
Change (%)	34%	3%	-22%	34%	29%	18%	-12%	12%
Other Income	86	111	180	152	167	204	389	208
EBITDA	9,165	9,402	6,401	12,174	14,794	18,952	11,960	15,202
Change (%)	41%	3%	-32%	90%	22%	28%	-37%	27%
Margin (%)	18%	18%	15%	22%	21%	22%	16%	18%
Depr & Amor.	3,183	3,434	3,323	3,430	3,387	4,041	4,245	4,232
EBIT	5,983	5,968	3,078	8,744	11,407	14,911	7,716	10,969
Int. & other fin. Cost	3,048	3,493	3,601	3,768	3,701	3,917	4,235	4,592
EBT	3,021	2,586	(342)	5,128	7,873	11,198	3,870	6,585
Exp Item	(1,713)	(47)	(2,125)	-	(264)	-	-	-
Tax	920	819	(1,966)	1,674	1,538	3,644	(718)	1,778
Minority Int & P/L share of Ass.	(37)	(73)	21	(100)	(59)	(145)	(215)	(215)
Reported PAT	452	1,797	(481)	3,354	6,214	7,639	6,579	4,822
Adjusted PAT	2,165	1,844	1,645	3,354	6,478	7,639	6,579	4,822
Change (%)	-53%	298%	-127%	-798%	85%	23%	-14%	-27%
Margin(%)	1%	3%	-1%	6%	9%	9%	9%	6%

Financial Details (Consolidated)

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	2.1%	7.8%	-2.5%	14.8%	22.2%	22.0%	16.4%	11.0%
ROCE	12.3%	10.5%	5.7%	15.9%	19.1%	23.1%	10.1%	12.6%
Asset Turnover	0.7	0.6	0.5	0.6	0.8	0.7	0.6	0.6
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	1.8	2.4
P/E	55.4	12.2	-64.4	13.5	11.2	9.3	9.6	14.8
Price / Book Value	1.1	1.0	1.6	2.0	2.5	2.0	1.6	1.6
EV/EBITDA	5.6	5.7	10.2	6.3	6.8	5.0	7.9	7.5
FCF per Share	-13.1	0.8	7.2	12.1	31.6	18.3	-13.8	-23.8
Div Yield	1.0%	1.2%	0.9%	0.4%	0.8%	1.1%	1.6%	1.4%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	1,308	2,539	(2,468)	5,128	7,609	11,168	3,885	6,600
(inc)/Dec in Working Capital	(3,520)	(1,175)	491	(3,866)	(1,101)	(1,581)	(1,395)	864
Non Cash Op Exp	5,209	6,311	9,081	6,341	7,311	7,676	8,090	8,616
Int Paid (+)	2,290	2,631	3,075	3,022	3,500	3,582	4,235	4,592
Tax Paid	(404)	(773)	(207)	(237)	(1,440)	(2,630)	718	(1,778)
others								
CF from Op. Activities	2,593	6,903	6,897	7,366	12,379	14,633	11,298	14,303
(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	(3,344)	(5,741)
(Pur)/Sale of Inv	17	30	(9)	(331)	(37)	(162)	(18)	-
others								
CF from Inv. Activities	(5,671)	(6,397)	(3,854)	(5,094)	(4,529)	(11,448)	(14,271)	(19,836)
inc/(dec) in NW	-	-	57	49	-	-	-	-
inc/(dec) in Debt	6,029	2,737	238	1,025	(3,992)	6,881	7,221	7,810
Int. Paid	(2,413)	(2,563)	(3,125)	(3,045)	(3,511)	(3,815)	(4,235)	(4,592)
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	1,798	2,029
Inc(Dec) in Cash	222	337	(108)	84	(335)	4,938	(1,175)	(3,504)
Add: Opening Balance	302	579	944	833	917	582	6,187	5,010
Closing Balance	575	913	833	917	582	5,581	5,012	1,506

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze 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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