

Industry  
Bloomberg  
BSE CODE

Metals  
JSTL IN  
500228

## Acute fall over production as well as consumption in the month of march restrict to perform

| RATING           | NEUTRAL |
|------------------|---------|
| CMP              | 164     |
| Price Target     | 225     |
| Potential Upside | 37%     |

|                 |   |
|-----------------|---|
| Rating Change   | ↓ |
| Estimate Change | ↓ |
| Target Change   | ↓ |

| STOCK INFO          |         |
|---------------------|---------|
| 52wk Range H/L      | 297/132 |
| Mkt Capital (Rs Cr) | 40198   |
| Free float (%)      | 42%     |
| Avg. Vol 1M (,000)  | 11052   |
| No. of Shares (Cr)  | 242     |
| Promoters Pledged % | 33%     |

### 4QFY20 Result update

- Consolidated revenue for JSWSTEEL stood at Rs. 17887 Cr. (down 20% YoY) on account of lower volume as well as fall in realization.
- Crude steel production in FY20 of 16.06 MT (down 4% YoY) and Saleable steel volumes were at 15.08 MT (down 4% YoY) on the back of subdued demand and consumption across the world and macroeconomic challenges due to COVID-19.
- EBITDA for the quarter is Rs. 2975 Cr. with an EBITDA margin of 16.6% (down 3.2% YoY) due to higher raw material cost, power and fuel cost, manpower and other expenses.
- PAT in 4QFY20 stood at Rs. 217 Cr. with an exceptional item of Rs. 805 Cr. on account of impairment of assets in this uncertain economic environment.
- Funding CAPEX of Dolvi and Vijayanagar plant through foreign debt is creating pressure of higher finance cost due to currency depreciation (INR against USD).
- CAPEX guidance for FY21 is around Rs. 9000 Cr which includes these Rs. 800 Cr. for mines and Rs. 8200 Cr. for Dolvi project and Coke plant at Vijayanagar.

### View and Valuation

Globally the demand as well as consumption for crude steel remain subdued due to this current economic crisis of COVID-19. Guidance for FY20 also dissatisfied due to this pandemic. However, management expect crude steel production and sales in FY21 to be 16 MT and 15 MT respectively. Demand in 2HFY21 is expected to retrieve globally which will help in accomplishing the guidance for FY21. Margins still remain under pressure due to lower utilization level at existing plant capacity. The upcoming capacity at Dolvi and Vijayanagar plant probably in 2HFY21 will also increase the cost initially. Thus, the stock is currently valued at Rs. 225 for 7x EV/EBITDA FY20.

### Key Risks to our rating and target

- Increase in coking coal prices.
- Global demand outlook for steel.

### RESEARCH ANALYST

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Fig in Rs Cr

| KEY FINANCIAL/VALUATIONS | FY16   | FY17  | FY18  | FY19  | FY20  |
|--------------------------|--------|-------|-------|-------|-------|
| Net Sales                | 41546  | 55605 | 71933 | 84757 | 73326 |
| EBITDA                   | 6401   | 12174 | 14794 | 18952 | 11873 |
| EBIT                     | 3078   | 8744  | 11407 | 14911 | 7627  |
| PAT                      | -481   | 3354  | 6214  | 7639  | 3919  |
| EPS (Rs)                 | -2     | 14    | 26    | 32    | 16    |
| EPS growth (%)           | -127   | -798  | 85    | 23    | -49   |
| ROE (%)                  | -3     | 15    | 22    | 22    | 10    |
| ROCE (%)                 | 6      | 16    | 19    | 23    | 10    |
| BV                       | 78     | 94    | 116   | 144   | 155   |
| P/B (X)                  | 1.63   | 2.00  | 2.49  | 2.03  | 1.07  |
| P/E (x)                  | -64.40 | 13.52 | 11.21 | 9.27  | 10.26 |

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## An exceptional item reduced PAT in 4QFY20

### 4QFY20 Results Consolidated

Fig in Rs Cr

| FINANCIALS   | 4QFY19 | 1QFY20 | 2QFY20 | 3QFY20 | 4QFY20 | YoY %  | QoQ%    | FY19  | FY20  | YoY %   |
|--------------|--------|--------|--------|--------|--------|--------|---------|-------|-------|---------|
| Net Sales    | 22368  | 19812  | 17572  | 18055  | 17887  | -20.0% | -0.9%   | 84757 | 73326 | -13.5%  |
| Other Income | 53     | 141    | 156    | 127    | 122    | 130%   | -3.9%   | 204   | 546   | 168%    |
| Total Income | 22421  | 19953  | 17728  | 18182  | 18009  | -20%   | -1.0%   | 84961 | 73872 | -13.1%  |
| COGS         | 12076  | 10362  | 9410   | 10053  | 8905   | -26%   | -11.4%  | 43206 | 38730 | -10.4%  |
| Staff Cost   | 701    | 759    | 653    | 709    | 718    | 2%     | 1.3%    | 2489  | 2839  | 14.1%   |
| Other Exp.   | 3507   | 3273   | 3229   | 3349   | 3761   | 7%     | 12.3%   | 13057 | 13612 | 4.3%    |
| Expenditure  | 17928  | 16096  | 14841  | 15604  | 14912  | -17%   | -4.4%   | 65805 | 61453 | -6.6%   |
| EBITDA       | 4440   | 3716   | 2731   | 2451   | 2975   | -33%   | 21.4%   | 18952 | 11873 | -37.4%  |
| EBITDAM      | 19.8%  | 18.8%  | 15.5%  | 13.6%  | 16.6%  | -16%   | 22.5%   | 22.4% | 16.2% | -27.6%  |
| Depreciation | 1084   | 1026   | 1057   | 1055   | 1108   | 2%     | 5.0%    | 4041  | 4246  | 5.1%    |
| EBIT         | 3356   | 2690   | 1674   | 1396   | 1867   | -44%   | 33.7%   | 14911 | 7627  | -48.8%  |
| Interest     | 1046   | 1042   | 1127   | 1060   | 1036   | -1%    | -2.3%   | 3917  | 4265  | 8.9%    |
| PBT          | 2363   | 1789   | 703    | 463    | 953    | -60%   | 105.8%  | 11198 | 3908  | -65.1%  |
| Excpt. Item  | 0      | 0      | 0      | 0      | -805   | -      | -       | 0     | -805  | -       |
| Tax          | 835    | 762    | -1848  | 249    | -69    | -108%  | -127.7% | 3644  | -906  | -124.9% |
| PAT          | 1523   | 1028   | 2560   | 211    | 188    | -88%   | -10.9%  | 7639  | 3919  | -48.7%  |

#### Decline in Volume based on uncertain market condition

Standalone production as well as sales volume during the quarter was at 3.97 MT (down 5% YoY) and 3.7 MT (up 10% YoY and 12% QoQ) respectively. The decrease in volume largely due to fall in demand and domestic sales which went down by 5% YoY because of current pandemic COVID across the world. Despite the slowdown in the economy management is giving guidance for FY21 production and sales volume to be at 16 MT and 15 MT respectively. Management expects steel demand to rebound in 2HFY21 which will help in accomplishing the guidance for FY21.

#### Higher Manpower and other expenses hampered margins

Gross margins during the quarter is 50.2% (up 4.2% YoY and 5.9% QoQ) on account of lower raw material cost. However, increase in manpower cost and other expenses reduced operating leverage benefit with an EBITA margin of 16.6% (down 3.2% YoY).

#### JSW Coated EBITDA margin improves

JSW coated business registered production volume of 0.44 MT and sales volume of 0.47 MT. On account of improved operating efficiency EBITDA margins expanded along with increase in realization due to favorable movement in HRC prices.

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

The US based plate and pipe mill facility produced 63528 T of plates and 15193 T of pipes operating at a capacity utilization of 27% and 11% respectively. Sales volume stood at 55274 T of plates and 27534 T of pipes. It reported an EBITDA loss of \$ 9.9 million for the quarter mainly due to lower realization and inventory write-down.

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

The US based HR coil manufacturing facility produced 73138 T of HRC during the quarter. Sales volume for the quarter stood at 72888 T. It reported EBITDA of \$ 57 million for the quarter which includes inventory write down of \$ 2.02 million.

## Concall Highlights

### COVID-19 Impact

- Production guidance was not fulfilled by the company due to COVID-19 shutdown of production in the month of March. The Major steel consuming sectors was impacted during this period.
- As on 31ST March 20, World steel production has come down by 1.4% YoY, however if we exclude China then the rest of the World steel production was fall by 4% YoY during this quarter.
- Fall in crude steel production was much steeper in India i.e. 7% YoY in 4QFY20. JSW reported crude steel production of 3.96MT down by 5% YoY and 1% QoQ in 4QFY20.
- India's consumption of steel also fell by 5% YoY while 2% up on sequentially in 4QFY20. Domestic steel of JSW also fell by 5% YoY during that period.
- Fall in exports was the major reason for the fall in overall India's consumption in FY20.
- Exceptional item during the quarter Rs. 805 Cr. due to diminishing in the value of loan, interest, investment because of increase in uncertainty due to COVID and lockdown across the world.

### Operational and financial performance

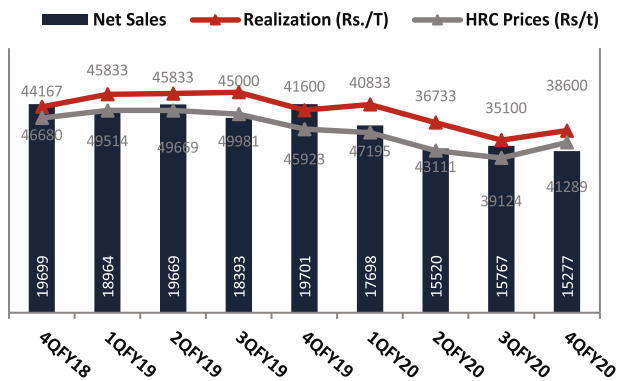
- Production Volume in FY21 is expected to be 16MT for the crude steel production and Saleable steel is around 15MT considering DOLVI additional capacity will not be contributing. Out of the 15 MT exports is expected to be higher earlier till the demand will pick up in India.
- Demand is expected to retrieve by 2HFY21 in India, till that it's expected to be sluggish.
- All the 6 mines which JSW got through auction is completely operational at Vijayanagar and is expected to product 6 MT. Another 3 mines at Vijayanagar will generate around 1 MT of ore production.
- EBITDA per ton improved sequentially due to reduction in cost particularly from the fuel cost.
- All these Indian subsidiaries of JSW contributed positively to the bottom line cumulative amounted to Rs. 227 Cr. Overseas subsidiaries remain dragging the overall performance, all contributed negatively Rs. 298 Cr.
- By the end of April the production was started and currently the company's plant are at 85% utilization level.
- Net Debt to EBITDA is currently at 4.5x due to currency depreciation (INR to USD) and capital acceptance it's higher by Rs. 3423 Cr.

### CAPEX Update

- Upfront amount Rs. 1200 Cr. paid to the government for mining which is paid by the company (advance payment) and will be adjusted at the time when premium amount being paid for mining to government. Remaining Rs. 800 are paid towards expenditure of stamp duty and other expenditure.
- CAPEX planned for FY21 by management is around Rs. 9000 Cr which includes these Rs. 800 Cr. for mines and Rs. 8200 Cr. for Dolvi project and Coke plant at Vijayanagar.
- Downstream projects at Dolvi, Vijayanagar plant has certain headwinds related to migrant workers and help from the foreign technology suppliers for equipment.
- Dolvi expansion plan from 5 MTPA to 10 MTPA is expected to complete by Mar-21. Vijaynagar plant is expected to complete in 2Q or 3QFY21 for Wire rod and pellet plant and all other plants except coke plant.

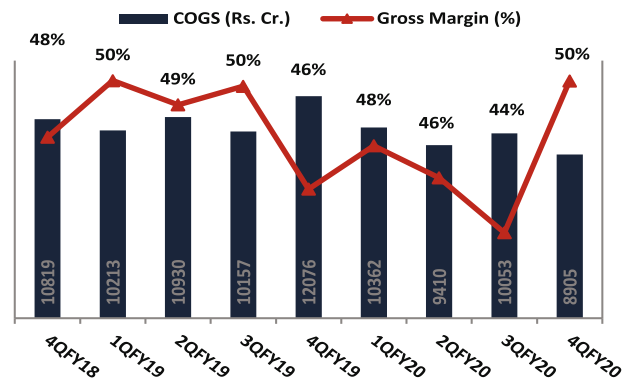
## Exhibit: Standalone net sales and realization trend

Drop in volume due to lower demand across the world..



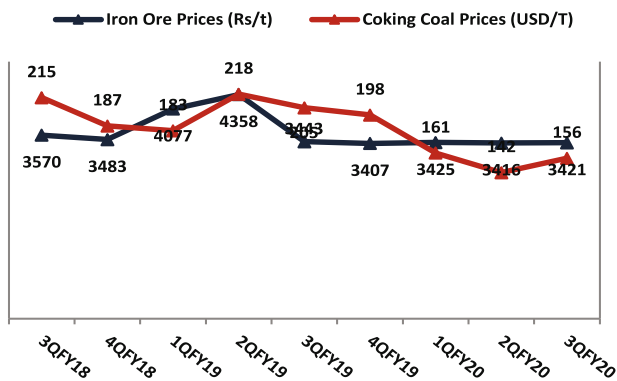
## Exhibit: Standalone COGS and gross margin

Higher cost of Raw Material contracted margins..



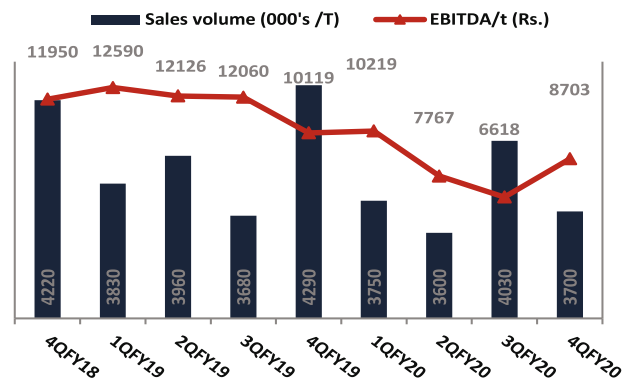
## Exhibit: Iron ore and coking coal price trend

Higher coking coal prices leads further drop in margins..



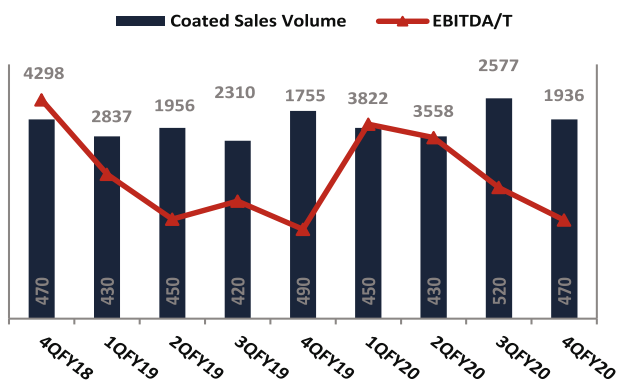
## Exhibit: Standalone sales volume and EBITDA/t

Uncertain demand outlook leads to fall in volume during the quarter..



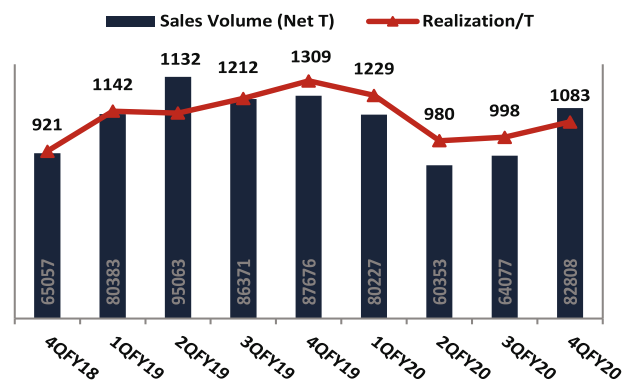
## Exhibit: Coated products sales volume and EBITDA/t

Coated business's EBITDA/t decline with the reduced HRC price lag effect of 1HFY20.



## 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                     | FY13           | FY14           | FY15           | FY16           | FY17           | FY18           | FY19           | FY20E          |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Share Capital                 | 563            | 1,067          | 1,067          | 301            | 301            | 302            | 301            | 301            |
| Reserves                      | 16,781         | 20,871         | 21,987         | 18,665         | 22,346         | 27,696         | 34,494         | 37,224         |
| <b>Networth</b>               | <b>17,344</b>  | <b>21,938</b>  | <b>23,054</b>  | <b>18,965</b>  | <b>22,648</b>  | <b>27,998</b>  | <b>34,795</b>  | <b>37,525</b>  |
| Debt                          | 19,046         | 31,590         | 34,885         | 37,811         | 37,296         | 33,900         | 35,989         | 45,332         |
| Other Non Cur Liab            | 4,129          | 3,093          | 3,836          | 2,740          | 3,712          | 3,797          | 8,905          | 7,511          |
| <b>Total Capital Employed</b> | <b>36,390</b>  | <b>53,528</b>  | <b>57,939</b>  | <b>56,777</b>  | <b>59,944</b>  | <b>61,898</b>  | <b>70,784</b>  | <b>82,857</b>  |
| Net Fixed Assets (incl CWIP)  | 39,300         | 54,884         | 58,856         | 62,455         | 62,221         | 63,091         | 73,693         | 84,146         |
| Non Cur Investments           | 1,606          | 595            | 599            | 1,195          | 1,067          | 1,157          | 1,812          | 1,812          |
| Other Non Cur Asst            | 16             | 18             | 268            | 1,996          | 1,892          | 2,881          | 3,925          | 3,925          |
| Non Curr Assets               | 45,794         | 62,190         | 67,102         | 67,728         | 66,779         | 68,826         | 81,359         | 92,619         |
| Inventory                     | 5,495          | 8,155          | 11,009         | 8,321          | 11,395         | 12,594         | 14,548         | 13,259         |
| <b>Debtors</b>                | <b>2,106</b>   | <b>2,292</b>   | <b>2,500</b>   | <b>2,727</b>   | <b>4,149</b>   | <b>4,704</b>   | <b>7,160</b>   | <b>5,625</b>   |
| <b>Cash &amp; Bank</b>        | <b>1,653</b>   | <b>663</b>     | <b>1,913</b>   | <b>1,020</b>   | <b>1,485</b>   | <b>1,063</b>   | <b>6,187</b>   | <b>7,476</b>   |
| Other Curr Assets             | -              | -              | -              | 2,230          | 3,198          | 3,599          | 2,461          | 2,129          |
| Curr Assets                   | 11,934         | 15,450         | 18,817         | 14,737         | 21,251         | 23,189         | 33,543         | 31,585         |
| Creditors                     | 10,251         | 11,699         | 14,253         | 12,758         | 14,352         | 15,944         | 16,159         | 16,071         |
| Provisions (both)             | 349            | 422            | 447            | 265            | 299            | 322            | 392            | 374            |
| Other Curr Liab               | 6,453          | 8,790          | 9,438          | 1,044          | 1,230          | 1,564          | 1,976          | 1,710          |
| Curr Liabilities              | 17,012         | 20,852         | 24,047         | 23,143         | 24,631         | 26,787         | 35,675         | 32,992         |
| <b>Net Curr Assets</b>        | <b>(5,078)</b> | <b>(5,402)</b> | <b>(5,230)</b> | <b>(8,406)</b> | <b>(3,380)</b> | <b>(3,598)</b> | <b>(2,132)</b> | <b>(1,407)</b> |
| <b>Total Assets</b>           | <b>57,728</b>  | <b>77,640</b>  | <b>85,919</b>  | <b>82,465</b>  | <b>88,041</b>  | <b>92,018</b>  | <b>114,914</b> | <b>124,204</b> |

### Income Statement

Fig in Rs Cr

| Y/E March                        | FY13          | FY14          | FY15          | FY16          | FY17          | FY18          | FY19          | FY20          |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenue from Operation</b>    | <b>38,210</b> | <b>51,220</b> | <b>52,972</b> | <b>41,546</b> | <b>55,605</b> | <b>71,933</b> | <b>84,757</b> | <b>73,326</b> |
| Change (%)                       | 11%           | 34%           | 3%            | -22%          | 34%           | 29%           | 18%           | -13%          |
| Other Income                     | 70            | 86            | 111           | 180           | 152           | 167           | 204           | 546           |
| <b>EBITDA</b>                    | <b>6,504</b>  | <b>9,165</b>  | <b>9,402</b>  | <b>6,401</b>  | <b>12,174</b> | <b>14,794</b> | <b>18,952</b> | <b>11,873</b> |
| Change (%)                       | 7%            | 41%           | 3%            | -32%          | 90%           | 22%           | 28%           | -37%          |
| Margin (%)                       | 17%           | 18%           | 18%           | 15%           | 22%           | 21%           | 22%           | 16%           |
| Depr & Amor.                     | 2,237         | 3,183         | 3,434         | 3,323         | 3,430         | 3,387         | 4,041         | 4,246         |
| <b>EBIT</b>                      | <b>4,266</b>  | <b>5,983</b>  | <b>5,968</b>  | <b>3,078</b>  | <b>8,744</b>  | <b>11,407</b> | <b>14,911</b> | <b>7,627</b>  |
| Int. & other fin. Cost           | 1,967         | 3,048         | 3,493         | 3,601         | 3,768         | 3,701         | 3,917         | 4,265         |
| <b>EBT</b>                       | <b>2,369</b>  | <b>3,021</b>  | <b>2,586</b>  | <b>(342)</b>  | <b>5,128</b>  | <b>7,873</b>  | <b>11,198</b> | <b>3,908</b>  |
| Exp Item                         | (369)         | (1,713)       | (47)          | (2,125)       | -             | (264)         | -             | (805)         |
| Tax                              | 845           | 920           | 819           | (1,966)       | 1,674         | 1,538         | 3,644         | (906)         |
| Minority Int & P/L share of Ass. | (260)         | (37)          | (73)          | 21            | (100)         | (59)          | (145)         | (90)          |
| <b>Reported PAT</b>              | <b>963</b>    | <b>452</b>    | <b>1,797</b>  | <b>(481)</b>  | <b>3,354</b>  | <b>6,214</b>  | <b>7,639</b>  | <b>3,919</b>  |
| <b>Adjusted PAT</b>              | <b>1,332</b>  | <b>2,165</b>  | <b>1,844</b>  | <b>1,645</b>  | <b>3,354</b>  | <b>6,478</b>  | <b>7,639</b>  | <b>4,724</b>  |
| Change (%)                       | 79%           | -53%          | 298%          | -127%         | 798%          | 85%           | 23%           | -49%          |
| Margin(%)                        | 3%            | 1%            | 3%            | -1%           | 6%            | 9%            | 9%            | 5%            |

## Financial Details (Consolidated)

### Key Ratios

| Y/E March          | FY13  | FY14  | FY15  | FY16  | FY17  | FY18  | FY19  | FY20E |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| ROE                | 5.6%  | 2.1%  | 7.8%  | -2.5% | 14.8% | 22.2% | 22.0% | 10.4% |
| ROCE               | 12.3% | 12.3% | 10.5% | 5.7%  | 15.9% | 19.1% | 23.1% | 10.3% |
| Asset Turnover     | 0.7   | 0.7   | 0.6   | 0.5   | 0.6   | 0.8   | 0.7   | 0.6   |
| Debtor Days        | 20    | 16    | 17    | 24    | 27    | 24    | 31    | 28    |
| Inv Days           | 52    | 58    | 76    | 73    | 75    | 64    | 63    | 66    |
| Payable Days       | 98    | 83    | 98    | 112   | 94    | 81    | 70    | 80    |
| Int Coverage       | 2.2   | 2.0   | 1.7   | 0.9   | 2.3   | 3.1   | 3.8   | 1.8   |
| P/E                | 15.5  | 55.4  | 12.2  | -64.4 | 13.5  | 11.2  | 9.3   | 10.3  |
| Price / Book Value | 0.9   | 1.1   | 1.0   | 1.6   | 2.0   | 2.5   | 2.0   | 1.1   |
| EV/EBITDA          | 4.7   | 5.6   | 5.7   | 10.2  | 6.3   | 6.8   | 5.0   | 5.8   |
| FCF per Share      | 1.0   | -13.1 | 0.8   | 7.2   | 12.1  | 31.6  | 18.3  | -15.0 |
| Div Yield          | 1.1%  | 1.0%  | 1.2%  | 0.9%  | 0.4%  | 0.8%  | 1.1%  | 2.5%  |

### Cash Flow Statement

Fig in Rs Cr

| Y/E March                      | FY13           | FY14           | FY15           | FY16           | FY17           | FY18           | FY19            | FY20E           |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
| <b>PBT</b>                     | <b>1,999</b>   | <b>1,308</b>   | <b>2,539</b>   | <b>(2,468)</b> | <b>5,128</b>   | <b>7,609</b>   | <b>11,168</b>   | <b>3,818</b>    |
| (inc)/Dec in Working Capital   | 589            | (3,520)        | (1,175)        | 491            | (3,866)        | (1,101)        | (1,581)         | (1,608)         |
| Non Cash Op Exp                | 3,767          | 5,209          | 6,311          | 9,081          | 6,341          | 7,311          | 7,676           | 7,965           |
| Int Paid (+)                   | 1,460          | 2,290          | 2,631          | 3,075          | 3,022          | 3,500          | 3,582           | 4,265           |
| Tax Paid                       | (511)          | (404)          | (773)          | (207)          | (237)          | (1,440)        | (2,630)         | 906             |
| others                         | -              | -              | -              | -              | -              | -              | -               | -               |
| <b>CF from Op. Activities</b>  | <b>5,844</b>   | <b>2,593</b>   | <b>6,903</b>   | <b>6,897</b>   | <b>7,366</b>   | <b>12,379</b>  | <b>14,633</b>   | <b>11,081</b>   |
| (inc)/Dec in FA & CWIP         | (5,630)        | (5,763)        | (6,721)        | (5,166)        | (4,435)        | (4,736)        | (10,206)        | (14,699)        |
| Free Cashflow                  | 214            | (3,170)        | 182            | 1,731          | 2,931          | 7,643          | 4,427           | (3,618)         |
| (Pur)/Sale of Inv              | 131            | 17             | 30             | (9)            | (331)          | (37)           | (162)           | (18)            |
| others                         | -              | -              | -              | -              | -              | -              | -               | -               |
| <b>CF from Inv. Activities</b> | <b>(5,433)</b> | <b>(5,671)</b> | <b>(6,397)</b> | <b>(3,854)</b> | <b>(5,094)</b> | <b>(4,529)</b> | <b>(11,448)</b> | <b>(14,171)</b> |
| inc/(dec) in NW                | -              | -              | -              | 57             | 49             | -              | -               | -               |
| inc/(dec) in Debt              | 955            | 6,029          | 2,737          | 238            | 1,025          | (3,992)        | 6,881           | 9,343           |
| Int. Paid                      | (1,519)        | (2,413)        | (2,563)        | (3,125)        | (3,045)        | (3,511)        | (3,815)         | (4,265)         |
| Div Paid (inc tax)             | (227)          | (315)          | (344)          | (320)          | (218)          | (655)          | (933)           | (1,189)         |
| others                         | -              | -              | -              | -              | -              | -              | -               | -               |
| <b>CF from Fin. Activities</b> | <b>(791)</b>   | <b>3,300</b>   | <b>(169)</b>   | <b>(3,151)</b> | <b>(2,188)</b> | <b>(8,185)</b> | <b>1,753</b>    | <b>3,889</b>    |
| Inc(Dec) in Cash               | (380)          | 222            | 337            | (108)          | 84             | (335)          | 4,938           | 799             |
| Add: Opening Balance           | 683            | 302            | 579            | 944            | 833            | 917            | 582             | 6,187           |
| <b>Closing Balance</b>         | <b>302</b>     | <b>575</b>     | <b>913</b>     | <b>833</b>     | <b>917</b>     | <b>582</b>     | <b>5,581</b>    | <b>6,986</b>    |

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