

Industry Metals
Bloomberg JSTL IN
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Subdued overall demand and supply disruption impacted the overall performance

1QFY21 Result Update

- ❑ JSWSTEEL reported Consolidated revenue Rs. 11782 Cr. (down 40.5% YoY) largely due to lower volumes and supply disruption due to COVID-19 lockdown across the country.
- ❑ Standalone Crude Steel production during the quarter was 2.96 MT with the average capacity utilisation of 66% as compare to an average utilization of 46% for the Indian steel industry.
- ❑ Saleable crude steel for the quarter was 2.8 MT.
- ❑ The management focused over exports market and export sales volume accounted for 53% of total sales volume in 1QFY21.
- ❑ Average realization during the quarter was impacted by lower steel prices and adverse product and market mix.
- ❑ Lower costs of iron ore and other operating expenses partially offset the drag on margins caused by weaker operating leverage and lower realisations.
- ❑ EBITDA in 1QFY21 is Rs. 1341 Cr. with an EBITDA margin of 11.4%.
- ❑ Net loss during the quarter stood at Rs. 529 Cr..
- ❑ The expansion of crude steel capacity at Dolvi works from 5 MTPA to 10 MTPA along with the Captive Power Plant and Coke Oven Phase 2 is likely to get commissioned in the second half of FY 2021.

RATING	NEUTRAL
CMP	205
Price Target	225
Potential Upside	10%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	297/132
Mkt Capital (Rs Cr)	51236
Free float (%)	33%
Avg. Vol 1M ('000)	12567
No. of Shares (Cr.)	242
Promoters Pledged %	33%

View and Valuation

Reduced production as well as saleable crude steel production due to lockdown across the country. Overall country's production also reduced by 41% sequentially due to poor demand and disruption in supply chain management. Overall guidance for FY21 also remain muted based on the 1QFY21 performance. Margins remain under pressure with the higher cost of material available and the lower steel prices. Higher finance cost and depreciation further create pressure on bottom line. We maintain our stance to remain NEUTRAL on our stock with the target price of Rs. 225 at 9x EV/EBITDA FY21E.

Key Risks to our rating and target

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

Fig in Rs. Cr.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	55,605	71,933	84,757	73,326	55,521
EBITDA	12,174	14,794	18,952	11,873	5,513
EBIT	8,744	11,407	14,911	7,627	1,277
PAT	3,354	6,214	7,639	3,919	(2,147)
EPS (Rs)	14	26	32	16	-9
EPS growth (%)	-798	85	23	-49	-155
ROE (%)	15	22	22	11	-6
ROCE (%)	16	19	23	9	2
BV	94	116	144	151	140
P/B (X)	2.00	2.49	2.03	1.10	1.47
P/E (x)	13.52	11.21	9.27	10.26	-23.08

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1QFY21 Results Consolidated

Revenue below than expectation

Fig in Rs. Cr.

Financials	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY %	QoQ%	FY19	FY20	YoY %
Net Sales	19,812	17,572	18,055	17,887	11,782	-40.5%	-34.1%	84,757	73,326	-13.5%
Other Income	141	156	127	122	132	-6%	8.2%	204	546	168%
Total Income	19,953	17,728	18,182	18,009	11,914	-40%	-33.8%	84,961	73,872	-13.1%
COGS	10,362	9,410	10,053	8,905	6,324	-39%	-29.0%	43,206	38,730	-10.4%
Staff Cost	759	653	709	718	625	-18%	-13.0%	2,489	2,839	14.1%
Other Exp.	3273	3229	3349	3761	2238	-32%	-40.5%	13,057	13,612	4.3%
Expenditure	16096	14841	15604	14912	10441	-35%	-30.0%	65,805	61,453	-6.6%
EBITDA	3716	2731	2451	2975	1341	-64%	-54.9%	18,952	11,873	-37.4%
EBITDAM	18.8%	15.5%	13.6%	16.6%	11.4%	-39%	-31.6%	22.4%	16.2%	-27.6%
Depreciation	1026	1057	1055	1108	1047	2%	-5.5%	4041	4246	5.1%
EBIT	2690	1674	1396	1867	294	-89%	-84.3%	14911	7627	-48.8%
Interest	1042	1127	1060	1036	1016	-2%	-1.9%	3917	4265	8.9%
PBT	1789	703	463	953	-590	-133%	-161.9%	11198	3908	-65.1%
Excpt. Item	0	0	0	-805	0	-	-	0	-805	-
Tax	762	-1848	249	-69	-61	-108%	-11.6%	3644	-906	-124.9%
PAT	1028	2560	211	188	-582	-157%	-409.6%	7639	3919	-48.7%

Decline in Volume based on uncertain market condition

Standalone production as well as sales volume during the quarter was at 2.96 MT (down 15% YoY) and 2.8 MT (up 18% YoY and 9% QoQ) respectively. The decrease in volume largely due to fall in demand and domestic sales which went down by 7% 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 will be lower. 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 46.3% (down 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 11.4% (down 3.2% YoY).

JSW Coated EBITDA margin improves

JSW coated business registered production volume of 0.30 MT and sales volume of 0.33 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 57035 T of plates and 4175 T of pipes operating at a capacity utilization of 23% and 3% respectively. Sales volume stood at 53210 T of plates and 4611 T of pipes. It reported an EBITDA loss of \$ 11.4 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 26954 T of HRC during the quarter. Sales volume for the quarter stood at 48865 T. It reported EBITDA loss of \$ 11.4 million for the quarter.

Conference call highlights

- Challenges faced by management due to COVID either by supply disruptions, lack of availability of labour, lack of credit flow, destruction in demand in 1QFY21.
- Continuity of production and operations was also challenging due to spread of COVID-19 which impacted people around the factory at Vijayanagar plant in the month of June.
- Global steel production other than China had shown a supply side issue. The no. issued by World Steel association, the production adjustment is over 14% other than china which is quite substantial adjustment on the supply.
- Increase in iron ore prices along with supply side adjustment along with robust demand in China particularly their exports are coming down and their imports are growing, increase in production forced a very robust recovery in China along with improvement in prices in China.
- With the Increasing demand in China, which is able to absorb the steel from rest part of the world particularly from India.
- Within India, in 1QFY21 demand for steel reduced by 55% and the production also fall by around 43%. In spite of fall in demand and adjustment over supply side, there's surplus production in India due to which there's huge amount of export increased that has happened during the quarter.
- Around 5.5 MT of steel exported from India, in 1QFY21 out of those 40% of the exports are semi-finished- (flat, billets) are the products being exported. Majority of the semi-finished product reached China.
- Increase in infrastructure demand not only increase the crude steel production and the resultant finished steel but also increase in semi-finished goods. This will act as an opportunity for India to fill up this gap in terms of increase in exports last quarter.
- In spite of fall in demand in overall quarter, the Opening stock in 1QFY20 till 1QFY21 the inventory has come down. The performance of 1QFY21 was particularly for only 2 months rather than for a quarter.
- Steel production during the quarter was 2.96 MT and the consolidated sales was 2.79 MT. 57% of our total consolidated sales were exported.
- India at large exported around 41% of semis while JSW steel has exported different segments of products and semis are around 20%.
- Net sales realization has fallen sequentially by 12% which is around Rs. 4800 per ton on blended basis.
- Iron ore prices was lower in India so that benefit have come last quarter.
- Cost initiatives taken by management in terms of natural gas price reduction, alloy and spares neutralizes to some extent in terms of increase in price of coal.

Exhibit: Standalone net sales and realization trend

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

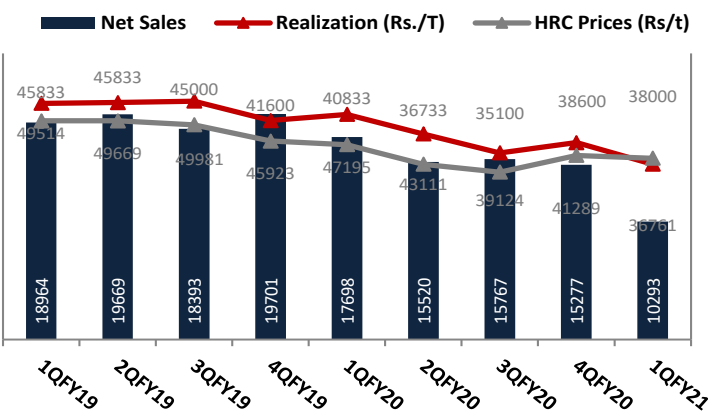


Exhibit: Iron ore and coking coal price trend

Higher coking coal prices leads further drop in margins..

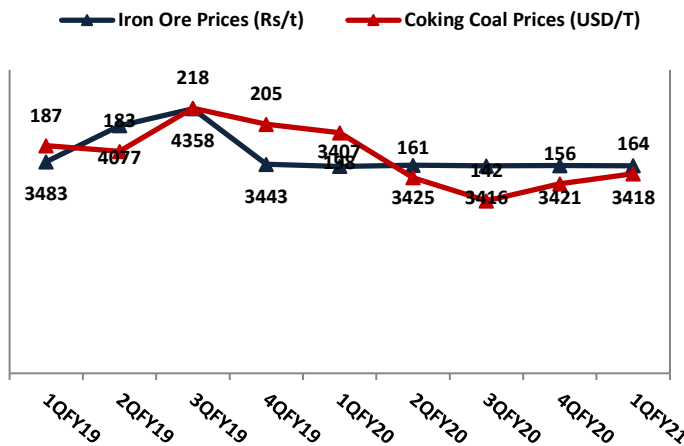


Exhibit: Coated products sales volume and EBITDA/t

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

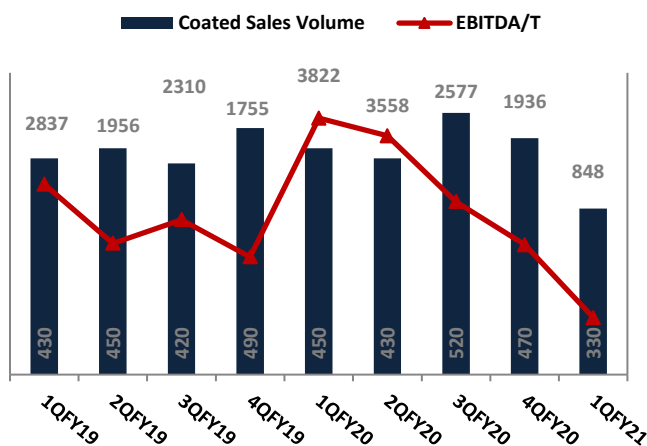


Exhibit: Standalone COGS and gross margin

Higher cost of Raw Material contracted margins..

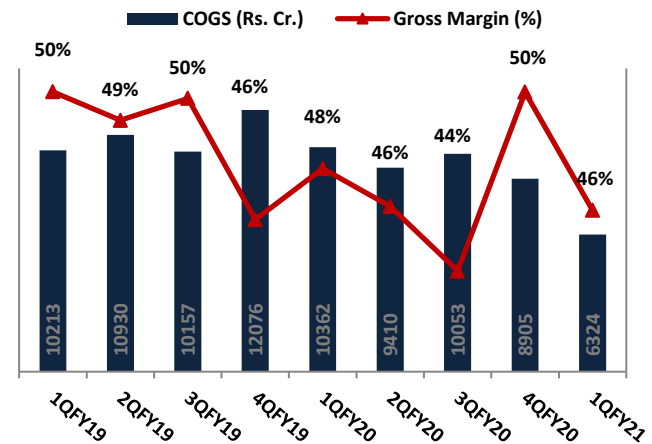


Exhibit: Standalone sales volume and EBITDA/t

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

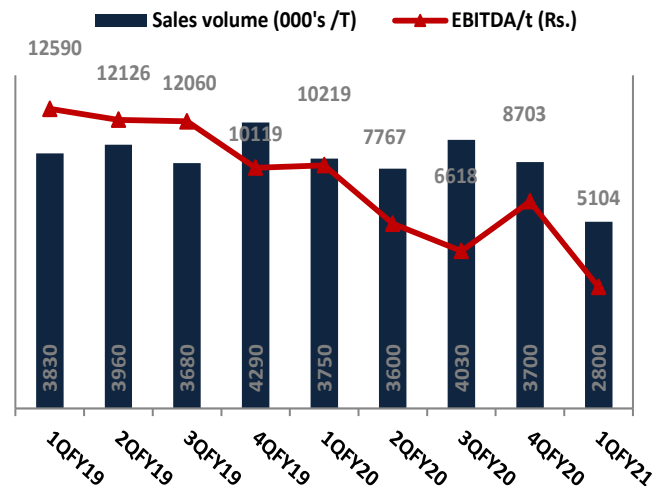
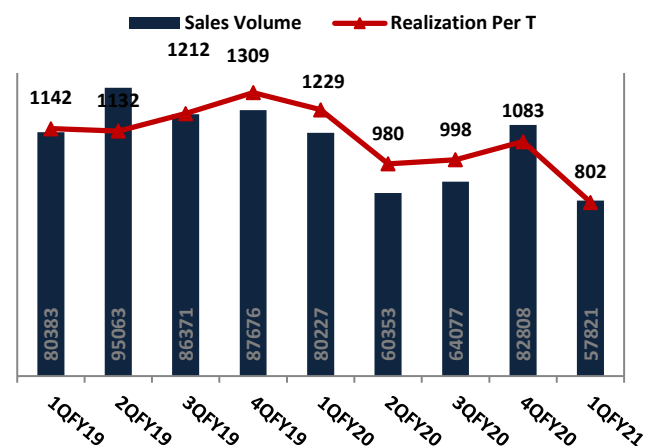


Exhibit: US plate and pipe volume and realization

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	FY20	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	36,298	33,426
Networth	21,938	23,054	18,965	22,648	27,998	34,795	36,599	33,727
Debt	31,590	34,885	37,811	37,296	33,900	35,989	52,998	50,195
Other Non Cur Liab	3,093	3,836	2,740	3,712	3,797	8,905	7,435	7,435
Total Capital Employed	53,528	57,939	56,777	59,944	61,898	70,784	89,597	83,922
Net Fixed Assets (incl CWIP)	54,884	58,856	62,455	62,221	63,091	73,693	85,299	86,199
Non Cur Investments	595	599	1,195	1,067	1,157	1,812	974	974
Other Non Cur Asst	18	268	1,996	1,892	2,881	3,925	2,956	2,956
Non Curr Assets	62,190	67,102	67,728	66,779	68,826	81,359	95,251	96,905
Inventory	8,155	11,009	8,321	11,395	12,594	14,548	13,864	10,344
Debtors	2,292	2,500	2,727	4,149	4,704	7,160	4,505	4,563
Cash & Bank	663	1,913	1,020	1,485	1,063	6,187	12,003	4,952
Other Curr Assets	-	-	2,230	3,198	3,599	2,461	2,286	1,612
Curr Assets	15,450	18,817	14,737	21,251	23,189	33,543	36,569	23,999
Creditors	11,699	14,253	12,758	14,352	15,944	16,159	17,918	12,169
Provisions (both)	422	447	265	299	322	392	509	436
Other Curr Liab	8,790	9,438	1,044	1,230	1,564	1,976	2,455	1,294
Curr Liabilities	20,852	24,047	23,143	24,631	26,787	35,675	35,363	25,417
Net Curr Assets	(5,402)	(5,230)	(8,406)	(3,380)	(3,598)	(2,132)	1,206	(1,418)
Total Assets	77,640	85,919	82,465	88,041	92,018	114,914	131,820	120,904

Income Statement

	Fig in Rs. Cr.							
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	51,220	52,972	41,546	55,605	71,933	84,757	73,326	55,521
Change (%)	34%	3%	-22%	34%	29%	18%	-13%	-24%
Other Income	86	111	180	152	167	204	546	241
EBITDA	9,165	9,402	6,401	12,174	14,794	18,952	11,873	5,513
Change (%)	41%	3%	-32%	90%	22%	28%	-37%	-54%
Margin (%)	18%	18%	15%	22%	21%	22%	16%	10%
Depr & Amor.	3,183	3,434	3,323	3,430	3,387	4,041	4,246	4,236
EBIT	5,983	5,968	3,078	8,744	11,407	14,911	7,627	1,277
Int. & other fin. Cost	3,048	3,493	3,601	3,768	3,701	3,917	4,265	4,267
EBT	3,021	2,586	(342)	5,128	7,873	11,198	3,908	(2,749)
Exp Item	(1,713)	(47)	(2,125)	-	(264)	-	(805)	-
Tax	920	819	(1,966)	1,674	1,538	3,644	(906)	(692)
Minority Int & P/L share of Ass.	(37)	(73)	21	(100)	(59)	(145)	(90)	(90)
Reported PAT	452	1,797	(481)	3,354	6,214	7,639	3,919	(2,147)
Adjusted PAT	2,165	1,844	1,645	3,354	6,478	7,639	4,724	(2,147)
Change (%)	-53%	298%	-127%	798%	85%	23%	-49%	-155%
Margin(%)	1%	3%	-1%	6%	9%	9%	5%	-4%

Financial Details (Consolidated)

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	2.1%	7.8%	-2.5%	14.8%	22.2%	22.0%	10.7%	-6.4%
ROCE	12.3%	10.5%	5.7%	15.9%	19.1%	23.1%	9.4%	1.7%
Asset Turnover	0.7	0.6	0.5	0.6	0.8	0.7	0.6	0.5
Debtor Days	16	17	24	27	24	31	22	30
Inv Days	58	76	73	75	64	63	69	68
Payable Days	83	98	112	94	81	70	89	80
Int Coverage	2.0	1.7	0.9	2.3	3.1	3.8	1.8	0.3
P/E	55.4	12.2	-64.4	13.5	11.2	9.3	10.3	-23.1
Price / Book Value	1.1	1.0	1.6	2.0	2.5	2.0	1.1	1.5
EV/EBITDA	5.6	5.7	10.2	6.3	6.8	5.0	6.1	16.0
FCF per Share	-13.1	0.8	7.2	12.1	31.6	18.3	-0.1	-17.0
Div Yield	1.0%	1.2%	0.9%	0.4%	0.8%	1.1%	2.5%	1.2%

Cash Flow Statement

Fig. in Rs. Cr.

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
PBT	1,308	2,539	(2,468)	5,128	7,609	11,168	3,013	(2,839)
<i>(inc)/Dec in Working Capital</i>	(3,520)	(1,175)	491	(3,866)	(1,101)	(1,581)	1,639	(5,083)
<i>Non Cash Op Exp</i>	5,209	6,311	9,081	6,341	7,311	7,676	9,288	8,261
<i>Int Paid (+)</i>	2,290	2,631	3,075	3,022	3,500	3,582	3,924	4,267
<i>Tax Paid</i>	(404)	(773)	(207)	(237)	(1,440)	(2,630)	(1,155)	692
<i>others</i>								
CF from Op. Activities	2,593	6,903	6,897	7,366	12,379	14,633	12,785	1,031
<i>(inc)/Dec in FA & CWIP</i>	(5,763)	(6,721)	(5,166)	(4,435)	(4,736)	(10,206)	(12,810)	(5,136)
<i>Free Cashflow</i>	(3,170)	182	1,731	2,931	7,643	4,427	(25)	(4,105)
<i>(Pur)/Sale of Inv</i>	17	30	(9)	(331)	(37)	(162)	85	(98)
<i>others</i>								
CF from Inv. Activities	(5,671)	(6,397)	(3,854)	(5,094)	(4,529)	(11,448)	(19,586)	(4,993)
<i>inc/(dec) in NW</i>	-	-	57	49	-	-	-	-
<i>inc/(dec) in Debt</i>	6,029	2,737	238	1,025	(3,992)	6,881	11,470	(2,803)
<i>Int. Paid</i>	(2,413)	(2,563)	(3,125)	(3,045)	(3,511)	(3,815)	(4,520)	(4,267)
<i>Div Paid (inc tax)</i>	(315)	(344)	(320)	(218)	(655)	(933)	(1,195)	(725)
<i>others</i>	-	-	-	-	-	-	-	-
CF from Fin. Activities	3,300	(169)	(3,151)	(2,188)	(8,185)	1,753	5,189	(7,795)
<i>Inc/Dec in Cash</i>	222	337	(108)	84	(335)	4,938	(1,612)	(11,756)
<i>Add: Opening Balance</i>	302	579	944	833	917	582	5,581	12,003
Closing Balance	575	913	833	917	582	5,581	3,966	247

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