



TM

JSW Steel

24 July 2021

RESULT UPDATE

Sector: Metals **Rating:** BUY
CMP: Rs 717 **Target Price:** Rs 891

Stock Info

Sensex/Nifty	52,975/ 15,586
Bloomberg	JSTL IN
Equity shares (mn)	2,417
52-wk High/Low	Rs 773/200
Face value	Rs 1
M-Cap	Rs 1,734bn/USD 23.4bn
3-m Avg volume	USD 135mn

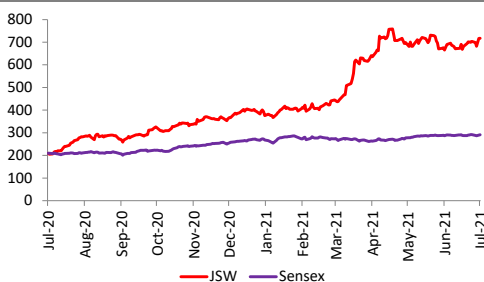
Financial Snapshot (Rs bn)

Y/E Mar	FY21	FY22E	FY23E
Sales	804.3	1,227.7	1,286.1
EBITDA	207.3	416.3	413.0
PAT	96.9	258.2	255.1
EPS (Rs)	40.1	106.8	105.5
EV/EBITDA (x)	9.9	4.9	5.0
P/E (x)	17.4	6.5	6.6
RoE (%)	21.0%	38.0%	28.4%
RoCE (%)	15%	29%	24%
Dividend yield (%)	2%	2%	2%

Shareholding Pattern (%)

	Jun'21	Mar'21	Dec'20
Promoter	44.1	44.1	44.1
-Pledged	6.5	7.8	9.7
FII	12.9	12.7	13.3
DII	7.2	7.1	6.3
Others	35.8	36.1	36.3

Stock Performance (1-year)



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Earnings surge owing to record steel prices

JSW Steel (JSW)'s 1QFY22 consolidated EBITDA of Rs 94.9bn (+152% YoY, +6% QoQ) was 12% above our estimates, largely due to a sharp 86% YoY (USD 420/t) and 18% QoQ (USD 136/t) surge in realisations. Raw material costs increased by 31% YoY (USD 99/t) and 16% QoQ (USD 74/t) QoQ. As a result, EBITDA margins surged to USD 359/t (vs. the previous highest-ever margin of USD 314/t in 2QFY08). We expect the current earnings surge to moderate over the next few quarters given a) steel prices are likely to stabilize, b) higher costs for coking coal, c) gradual ramp-up of the new 5mt Dolvi, Maharashtra steel plant and d) consistent performance of international subsidiaries. JSW Steel has announced investments of a) Rs 4.5bn towards 26% equity in a renewable special purpose vehicle (SPV) to be set up by JSW Energy to help meet its renewable power obligations and b) Rs 3bn for a 6.9% stake in JSW Paints to meet increasing requirements for expansion in value-added steels (would be gradually increased to Rs 7.5bn over FY25). We retain our FY22/23 estimates and maintain our target price of Rs 891 based on 6x FY23E EBITDA.

Key earnings call takeaways:

Steel industry scenario: Globally, 1bt of steel was produced in the six months ended June, which was 126mt higher than the previous six-month period. 67% of the production was contributed by RoW, excluding China. For the balance of the year, JSW expects a V-shaped economic recovery which should fuel domestic demand. Realized domestic steel prices at 19% above HRC are still at a discount compared to international prices - 40%-50% in the US and Europe, indicating further growth potential. Prices should stabilize in 2QFY22 with expected increase in global supply.

Unchanged guidance: The company has maintained its consolidated volume guidance for FY22 at 22.9mt of crude steel production and sales guidance at 21.63mt as it is optimistic about domestic steel demand.

Exports and domestic demand: Overall steel exports increased by 33.6% sequentially due to strong economic recovery; however, domestic steel consumption was impacted by the 2nd wave of COVID with demand declining by 15% YoY. Given strong exports so far, quotas for some products have exhausted but lasted for other value-added products. While the EU and the Middle East remain JSW's core export markets, it plans to expand to regions like LatAm and Mexico. The export outlook for the year-end looks optimistic with a strong order-book driven by longer lead-time industries.

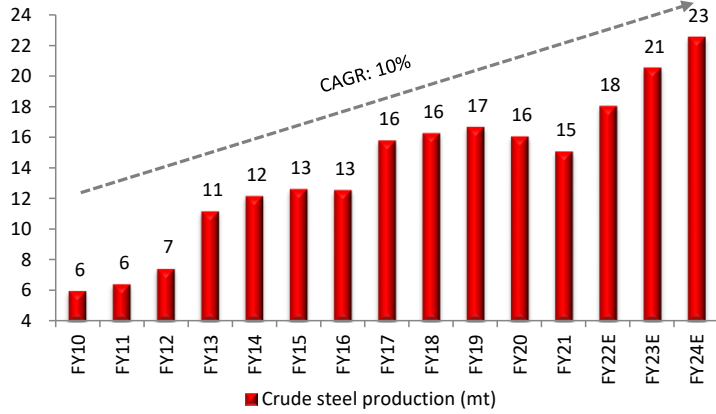
PLI Scheme: It is a welcome initiative by the government of India and is likely to encourage investments and expansion. The scheme will help reduce dependence on imports while leveraging exports. It is expected to provide 25mt incremental capacity with investments of approximately Rs 400bn.

Expansion projects: The 5mt steelmaking plant at Dolvi would likely commission in September 2021. The coke oven plant at Dolvi commenced production in 4QFY21 while the pellet plant and CDQ-2 were commissioned during 1QFY22. The 5mt brownfield project at Vijayanagar, Karnataka is going as planned and will be completed by FY24.

Maintain BUY: We retain our EBITDA estimates for FY22/23E. Our target price of Rs 891 implies an upside of 24%. JSW Steel stands out in terms of aggressive focus on adding volumes vs. its peers that have only recently initiated new/earlier announced capacity expansion plans. We continue to value JSW Steel at 6x EV/EBITDA which is in-line with global peers. The commissioning of the 5mt expansion at Dolvi in 2HFY21 and its newly announced 5mt expansion at Vijayanagar would be largely funded through internal accruals.

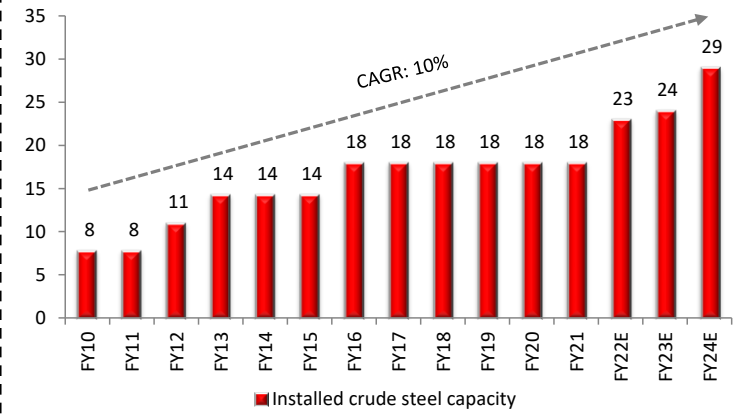
Our recent interaction with investors indicates concerns over a likely mean reversion of steel prices and hence, an imminent near-term impact on stock prices. We believe such a scenario is possible but could take several quarters to play out. The key metrics to monitor are a) the direction of Fed rates which are hovering at 1.2-1.5% despite rising inflation, b) actions taken by the government to control carbon emissions which include a likely imposition of export duty, c) the Biden administration's infra investment projects keeping demand strong in the US where steel prices have crossed USD 1,500/t and d) large miners appearing hesitant to add capacities despite record commodity prices.

Exhibit 1: Output set to rise with new capacity commissioning



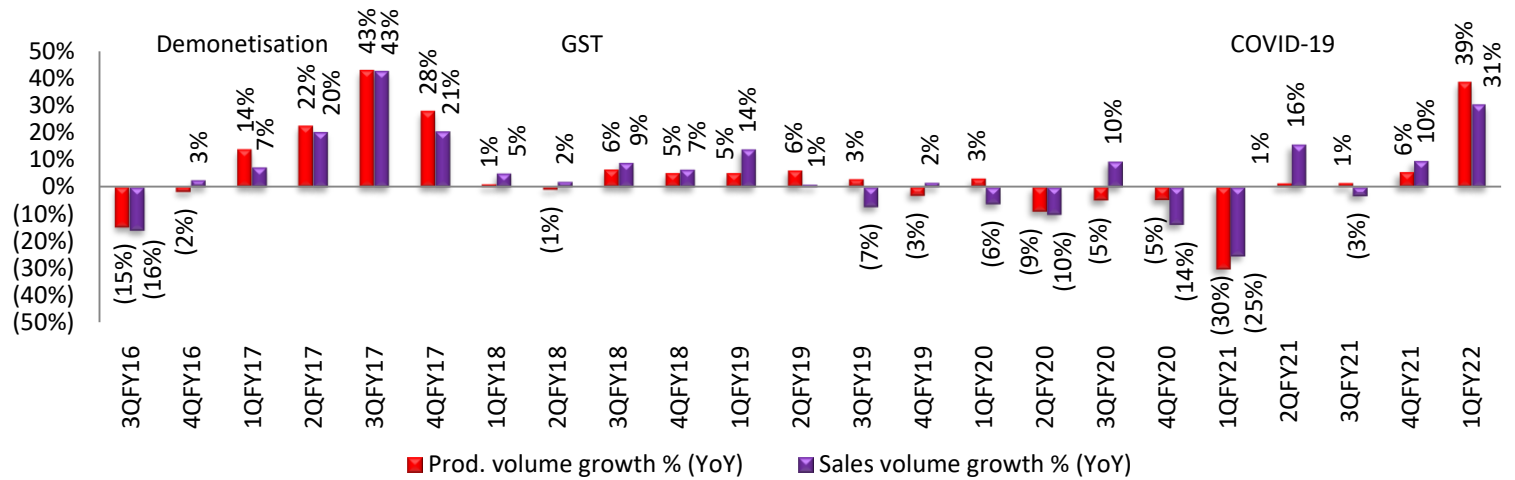
Source: Company, Systematix Institutional Research

Exhibit 2: New 5mt brownfield expansion announced



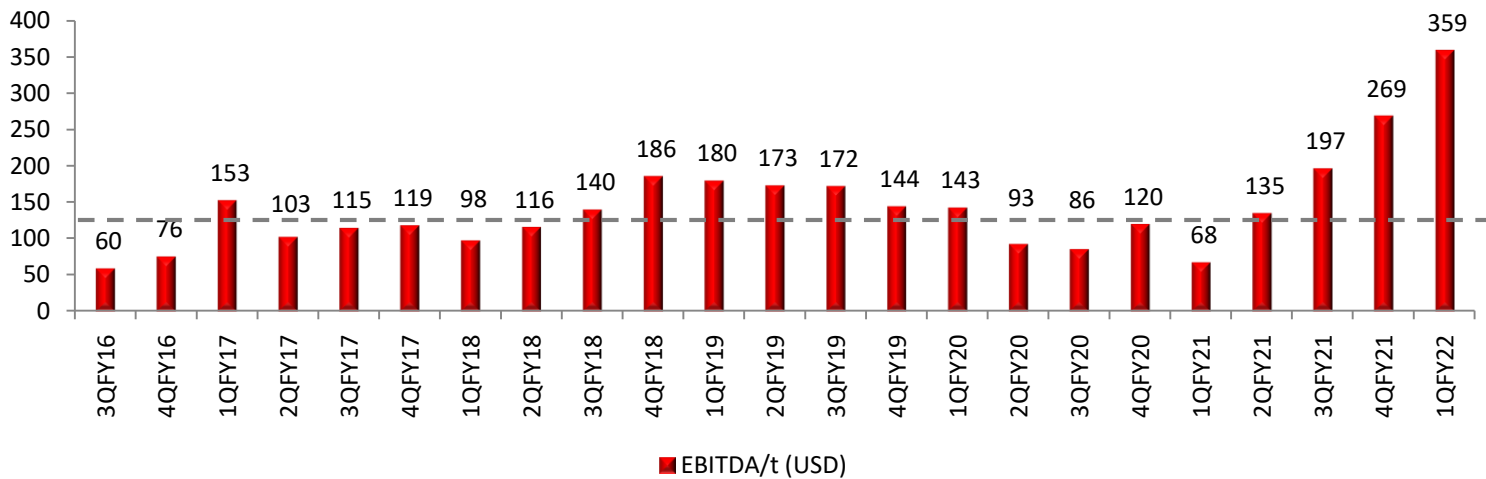
Source: Company, Systematix Institutional Research

Exhibit 3: JSW Steel - quarterly volume growth



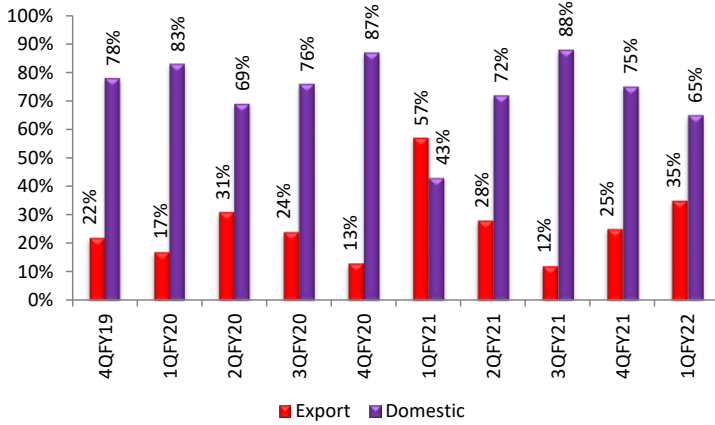
Source: Company data, Systematix Research

Exhibit 4: Steel EBITDA margins surge



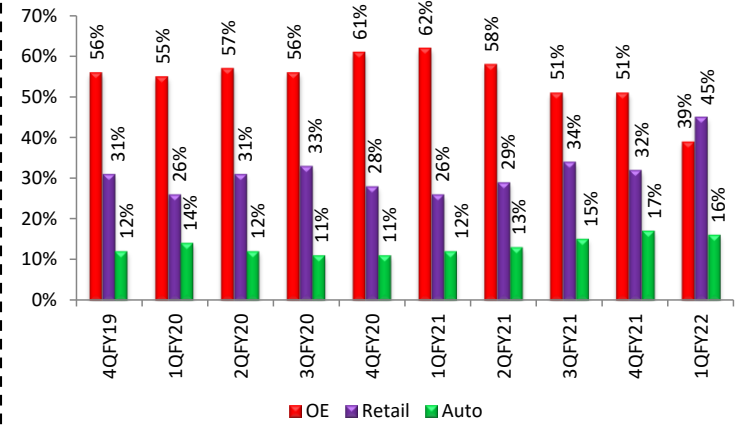
Source: Company data

Exhibit 5: Share of exports likely to remain elevated (%)



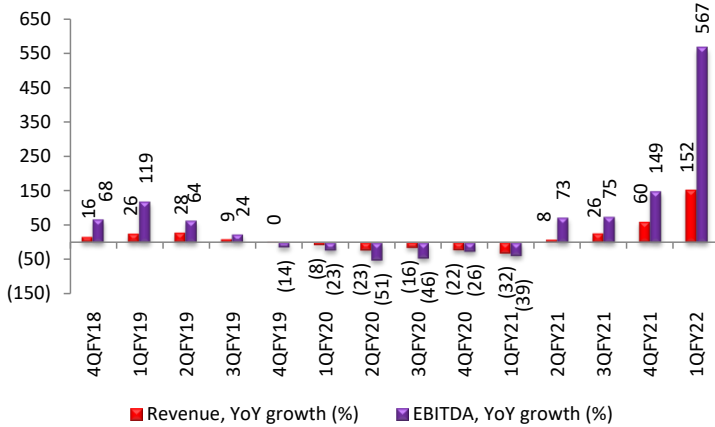
Source: Company, Systematix Institutional Research

Exhibit 6: Share of sales to auto customers sees gradual increase (%)



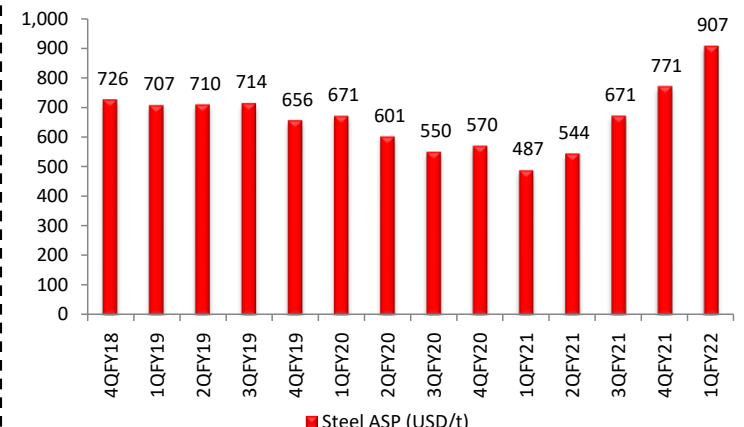
Source: Company, Systematix Institutional Research

Exhibit 7: JSW Steel Standalone revenue and EBITDA trends (% YoY)



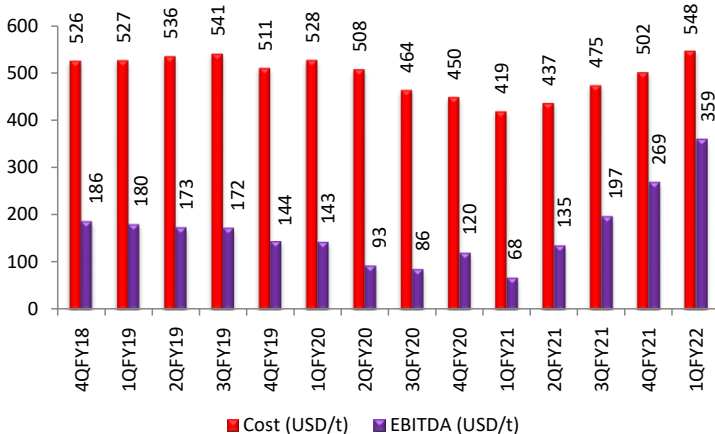
Source: Company, Systematix Institutional Research

Exhibit 8: JSW Steel Standalone ASP (USD/t)



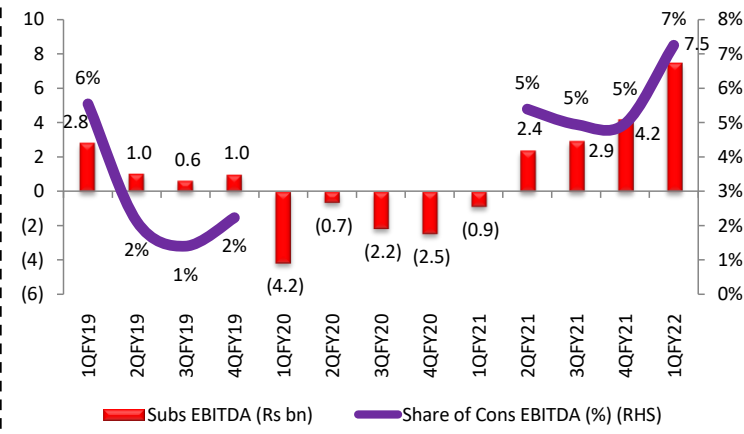
Source: Company, Systematix Institutional Research

Exhibit 9: EBITDA/t at elevated levels aided by cyclical factors



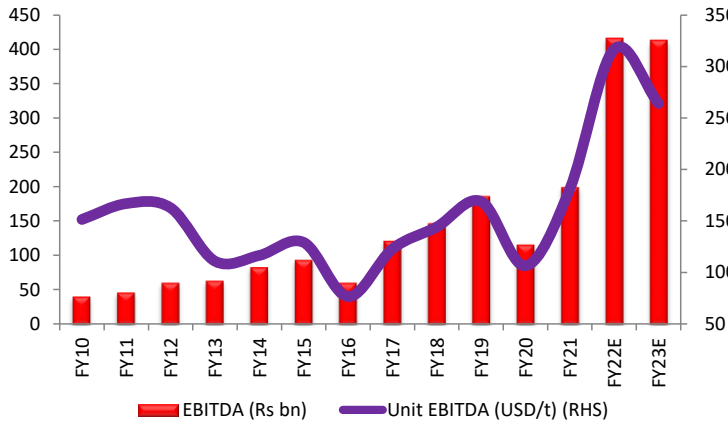
Source: Company, Systematix Institutional Research

Exhibit 10: Subsidiaries drive profitability



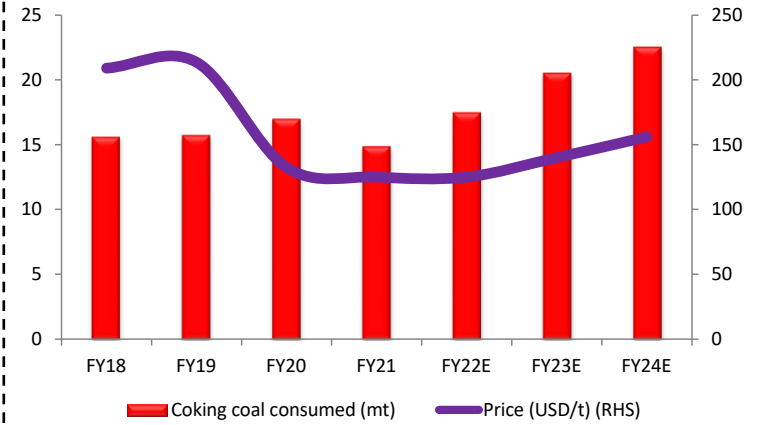
Source: Company, Systematix Institutional Research

Exhibit 11: Near-term margins to remain elevated (USD/t)



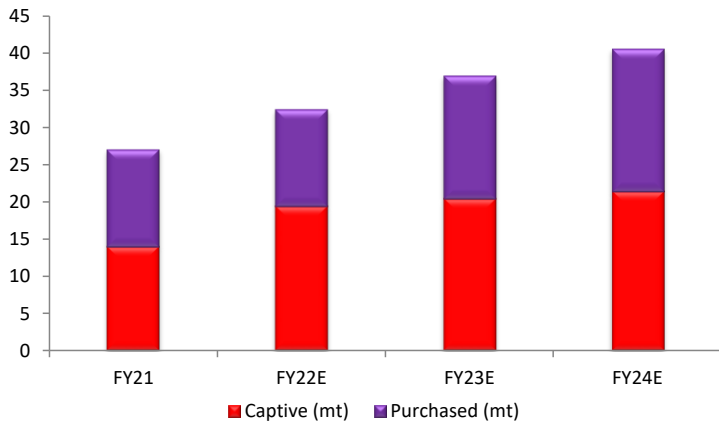
Source: Company, Systematix Institutional Research

Exhibit 12: Coking coal price to rise at a slow pace (USD/t)



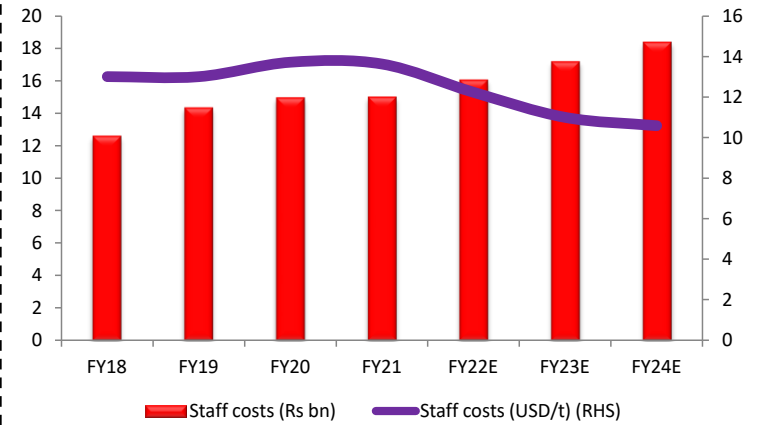
Source: Company, Systematix Institutional Research

Exhibit 13: Iron ore requirement set to rise (mt)



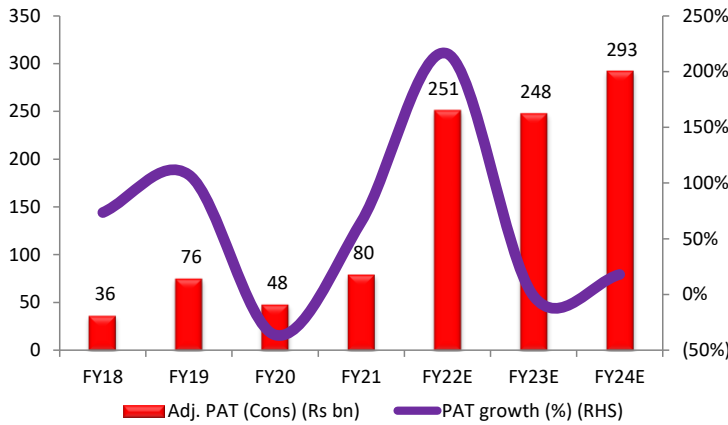
Source: Company, Systematix Institutional Research

Exhibit 14: Staff costs are lowest among peers (USD/t)



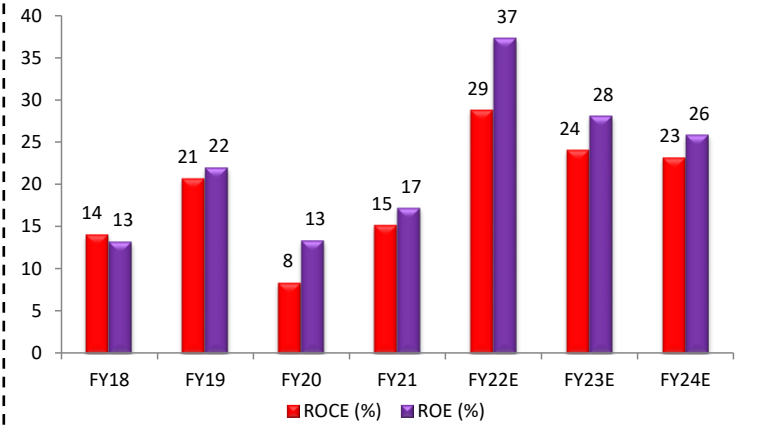
Source: Company, Systematix Institutional Research

Exhibit 15: Cons. PAT to grow led by the gradual demand recovery



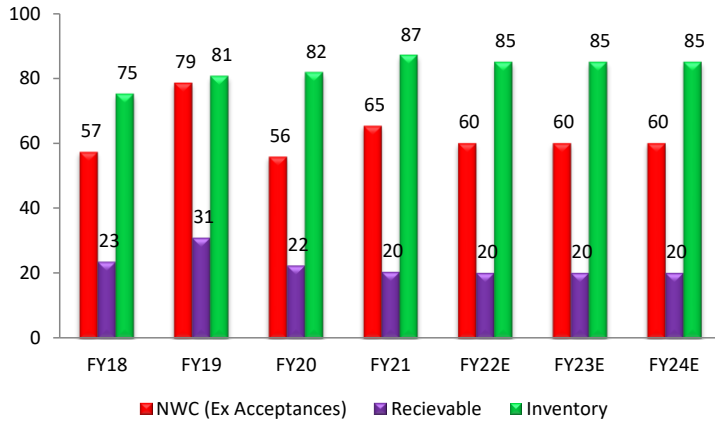
Source: Company, Systematix Institutional Research

Exhibit 16: Consolidated return ratios to remain high



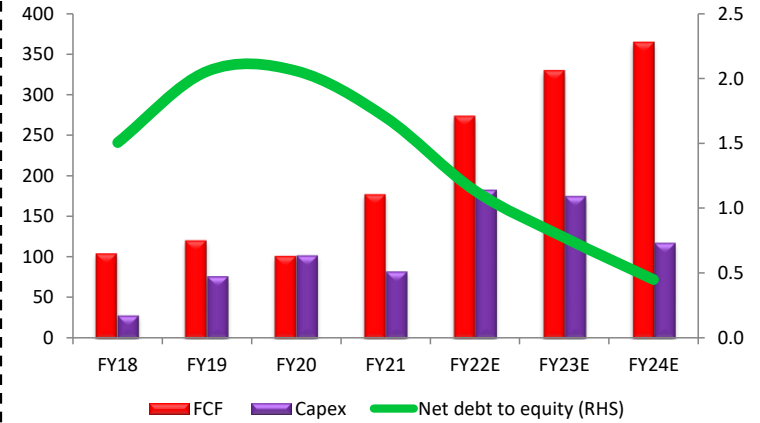
Source: Company, Systematix Institutional Research

Exhibit 17: Net-working capital (consolidated)



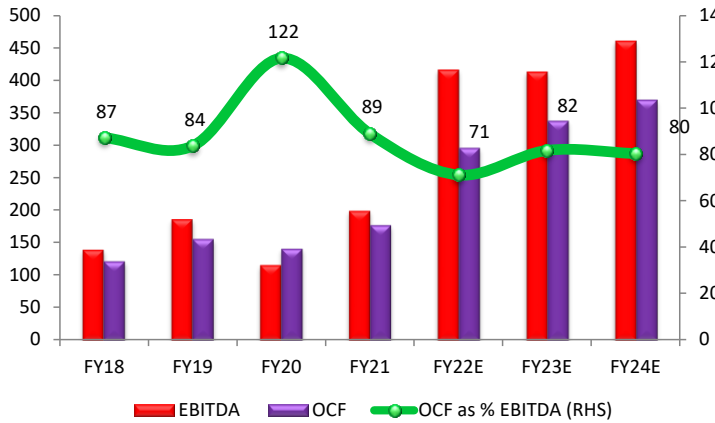
Source: Company, Systematix Institutional Research

Exhibit 18: Net debt (consolidated) to equity trend



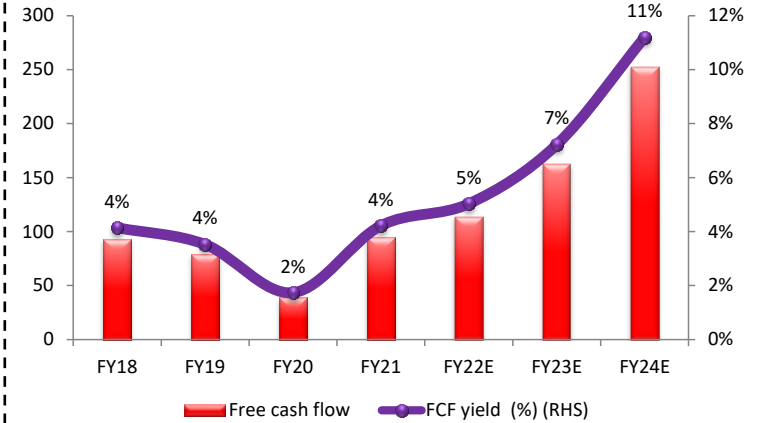
Source: Company, Systematix Institutional Research

Exhibit 19: EBITDA (consolidated) to OCF conversion



Source: Company, Systematix Institutional Research

Exhibit 20: Consolidated FCF to EV to show steady improvement



Source: Company, Systematix Institutional Research

Exhibit 21: Key assumptions

Key assumptions	FY19	FY20	FY21	FY22E	FY23E	FY24E
Company guidance:						
Production		16.5	16.0	18.5	NA	NA
Sales		15.5	15.0	17.4	NA	NA
Capex		110.0	90.0	182.4	NA	NA
Volumes (mt)						
Production	16.7	16.1	15.1	18.1	20.6	22.6
Sales	15.8	15.1	14.9	17.5	20.6	22.6
Realisations (USD/t)	724	606	664	851	756	754
Raw materials (mt)						
Iron ore	26	31	27	33	37	41
Captive (%)	-	13	77	89	84	76
Coking coal	16	17	15	18	21	23
Iron ore	66	55	68	80	83	86
Coking coal	214	132	125	125	140	156
Margins						
EBITDA (USD/t)	169	106	181	316	263	264
Margins (%)	24	18	28	36	34	34
Capex		102.0	82.3	182.4	174.7	117.5

Source: Company, Systematix Institutional Research

Exhibit 22: Quarterly snapshot

(Rs bn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Net revenues	118	193	219	269	289
YoY change (%)					145.3
QoQ change (%)					7.3
EBITDA	13	44	59	84	103
YoY change (%)					666
QoQ change (%)					22
EBITDA Margin (%)	11	23	27	31	36
Net earnings (adjusted)	(5)	16	27	42	56
YoY change (%)					N/A
QoQ change (%)					33

Source: Systematix Institutional Research

Valuation and view**Exhibit 23: JSTL valuation: EV/EBITDA Method, FY23E**

	EBITDA	Multiple	Enterprise Value	Per Share
	(Rs bn)	(x)	(Rs bn)	(Rs)
EBITDA	411.0	6.0	2,466	1,020
Less: net debt / (cash)			638	264
Add: CWIP			324	134
Equity value			2,153	891
Target price per share			891	

Source: Company, Systematix Institutional Research

Target price of Rs 891/share based on FY23E EV/EBITDA of 6x (peer average).

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs bn)	FY19	FY20	FY21	FY22E	FY23E
Net revenues	850	739	804	1,228	1,286
Expenditure	658	615	597	811	873
EBITDA	192	124	207	416	413
Depreciation	40	42	47	54	60
EBIT	151	82	161	362	353
Interest cost	39	43	40	40	34
Exceptionals	-	8	1	-	-
PBT	112	31	120	323	319
Taxes	36	(9)	24	65	64
PAT	76	40	96	258	255
Adjusted PAT	76	48	97	258	255
No of Shares (mn)	2.4	2.4	2.4	2.4	2.4
Adj. EPS (Rs/share)	31.3	19.9	40.1	106.8	105.5

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs bn)	FY19	FY20	FY21	FY22E	FY23E
PAT	112	30	120	323	319
Add: Depreciation	40	42	47	54	60
Add: Interest	(1)	(4)	(5)	-	-
Less: Taxes Paid	(26)	(12)	(19)	(65)	(64)
Add: Other Adjustments	38	55	32	40	34
Less: WC changes	(16)	16	13	(70)	(10)
Total OCF	146	128	188	282	339
OCF w/o WC changes	162	111	175	352	349
Capital Expenditure	(102)	(128)	(93)	(194)	(187)
Changes in investments	(12)	(68)	11	-	-
Interest/ Dividends recd	-	0	0	-	-
Total ICF	(114)	(196)	(81)	(194)	(187)
Free Cash Flow	44	(0)	95	88	152
Share Issuances	-	1	0	-	-
Change in Borrowings	65	108	17	-	-
Dividends	(9)	(12)	(5)	(40)	(40)
Interest Payments	(38)	(45)	(43)	(40)	(34)
Others	-	-	-	-	-
Total Financing CF	18	52	(31)	(79)	(73)
Net change in cash	49	(16)	76	9	78
Opening Cash & CE	6	56	44	119	128
Closing Cash & CE	56	40	119	128	207

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY19	FY20	FY21	FY22E	FY23E
Share capital	3	3	3	3	3
Reserves & Surplus	345	363	465	683	900
Minority interest	348	366	468	686	903
Networth	348	366	468	686	903
Total Debt	360	530	517	517	517
Non Current liabilities	21	(15)	65	65	65
Current liabilities	420	437	433	432	439
Total Sources	1,149	1,318	1,483	1,701	1,924
Net Block	616	576	589	905	1,057
CWIP	115	269	324	148	121
Non current investments	82	109	212	211	212
Total Non current assets	814	953	1,125	1,264	1,390
Cash	62	120	128	137	216
Inventories	145	138	142	189	203
Receivables	72	45	45	67	70
Other Current Assets	57	62	43	43	45
Current Assets	336	365	359	436	534
Total Assets	1,149	1,318	1,483	1,701	1,924

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
YoY growth in Revenue	16%	-13%	9%	53%	5%
YoY growth in EBITDA	56%	-35%	67%	101%	-1%
YoY growth in NI	107%	-47%	140%	169%	-1%
ROCE	21%	8%	15%	29%	24%
ROE	22%	13%	21%	38%	28%
Per Share Numbers (Rs)					
Reported Earnings	31	20	40	107	106
Book Value	144	151	193	284	373
CPS	48	34	59	129	130
Valuations (x)					
P/E	22.1	35.0	17.4	6.5	6.6
EV/EBITDA	10.9	16.6	9.9	4.9	5.0
EV/Sales	2.4	2.8	2.6	1.7	1.6
P/BV	4.8	4.6	3.6	2.5	1.9

Source: Company, Systematix Institutional Research

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Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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