

JSW Steel

BUY

Product mix improves; captive iron ore usage up

Summary

JSW Steel (JSW) reported highest ever EBITDA (in line with our estimate) of Rs104 bn (+1.4x YoY) in Q2FY22. The key positives were: 1) share of value added products remained high at 60% (61% in Q1FY22, 51% in Q2FY21) driven by increased domestic sales to automotive, solar and appliance segments and 2) there was higher usage of captive iron ore (50% self-sufficiency). JSW's net debt remained flat QoQ at Rs554 bn.

We raise our FY23 realization and EBITDA estimates given rise in steel prices during October - we expect the prices to sustain. Our FY23 EBITDA is revised higher by 13%. We introduce FY24 estimates in this report and base our target price on FY24 estimates. We now value the stock at an EV/EBITDA multiple of 6x FY24 EBITDA as JSW's expansion plans provide strong volume growth visibility over FY21-FY25. We derive a target price of Rs876 (earlier Rs856) and maintain our BUY rating on the stock.

Key Highlights and Investment Rationale

- Captive iron ore usage up:** During Q2FY22, JSW's standalone realization increased 5% QoQ, driven by higher realizations from export and also due to better sales mix. Standalone sales volumes increased 5% QoQ to 3.8 mn tonnes driven by higher exports (+26% QoQ). JSW mined 7.6 mn tonnes of iron ore in Q2FY22 (self-sufficiency of 50% achieved).
- Project updates:** JSW has commenced production from its 5 mtpa Dolvi plant. Also, it is increasing its Vijayanagar steel capacity by 5 mtpa to 12 mtpa by FY24 with a capex of Rs150 bn. JSW's working capital has increased in Q2FY22 due to rising prices of key inputs in Q2FY22 which is likely to come down partially in H2FY22.
- Outlook:** In the near-term, we anticipate Indian companies to export higher proportion of steel if the domestic demand weakens. Moreover, we expect steel prices to remain firm in H2FY22 as China continues to curbs its steel capacities during coming 3-5 months. Over the coming five years, JSW Steel's volume growth is likely to remain strong alongside robust return ratios given the strong steel cycle and JSW's low-cost brownfield expansions.

TP	Rs876	
CMP	Rs673	
Potential upside / downside	30%	
Previous Rating	BUY	

V/s Consensus

EBITDA (Rs bn)	FY23E	FY24E
IDBI Capital	336	342
Consensus	347	365
% difference	(3.1)	(6.3)

Shareholding Pattern (%)

Promoters	44.1
FII	0.0
DII	7.2
Public	48.8

Price Performance (%)

	-1m	-3m	-12m
Absolute	6.2	(1.2)	111.3
Rel to Sensex	2.0	(17.9)	61.0

Key Stock Data

Bloomberg / Reuters	JSTL IN / JSTL.BO
Sector	Metal & Mining
Shares o/s (mn)	2,417
Market cap. (Rs mn)	16,27,877
Market cap. (US\$ mn)	21,605
3-m daily average value (Rs mn)	255.2
52-week high / low	Rs777 / 300
Sensex / Nifty	60,924 / 18,178

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	8,47,570	798,390	1,268,017	1,446,002	1,541,183
EBITDA	1,89,520	201,410	362,748	336,170	342,858
EBITDA (%)	22.4	25.2	28.6	23.2	22.2
Adj. PAT	72,720	76,848	203,768	177,113	174,707
EPS (Rs)	30.2	31.9	84.6	73.5	72.5
EPS Growth (%)	24.0	107.9	165.2	(13.1)	(1.4)
PE (x)	23.8	21.2	8.0	9.2	9.3
Dividend Yield (%)	0.5	1.0	1.0	1.2	1.5
EV/EBITDA (x)	11.2	10.0	5.5	5.9	5.6
RoE (%)	23.2	18.4	36.2	24.0	19.5
RoCE (%)	18.4	14.6	27.4	22.5	21.3

Source: IDBI Capital Research;

Exhibit 1: Quarterly Snapshot (Consolidated)

(Rs mn)

Year-end: March	Q2FY22	Q1FY22	QoQ (%)	Q2FY21	YoY (%)
Net sales	325,030	289,020	12.5	192,640	68.7
Expenditure	220,860	186,280	18.6	148,500	48.7
EBITDA	104,170	102,740	1.4	44,140	136.0
<i>EBITDA margin (%)</i>	<i>32.0</i>	<i>35.5</i>	<i>-350bps</i>	<i>22.9</i>	<i>914bps</i>
Interest	9,360	9,930	(5.7)	9,590	(2.4)
Depreciation	12,390	11,830	4.7	11,490	7.8
PBT	91,880	82,960	10.8	24,580	273.8
Tax	26,120	27,190	(3.9)	9,100	187.0
Net profit	71,790	59,000	21.7	15,950	350.1
Adj. diluted EPS (Rs)	29.7	24.4	21.7	6.6	350.1

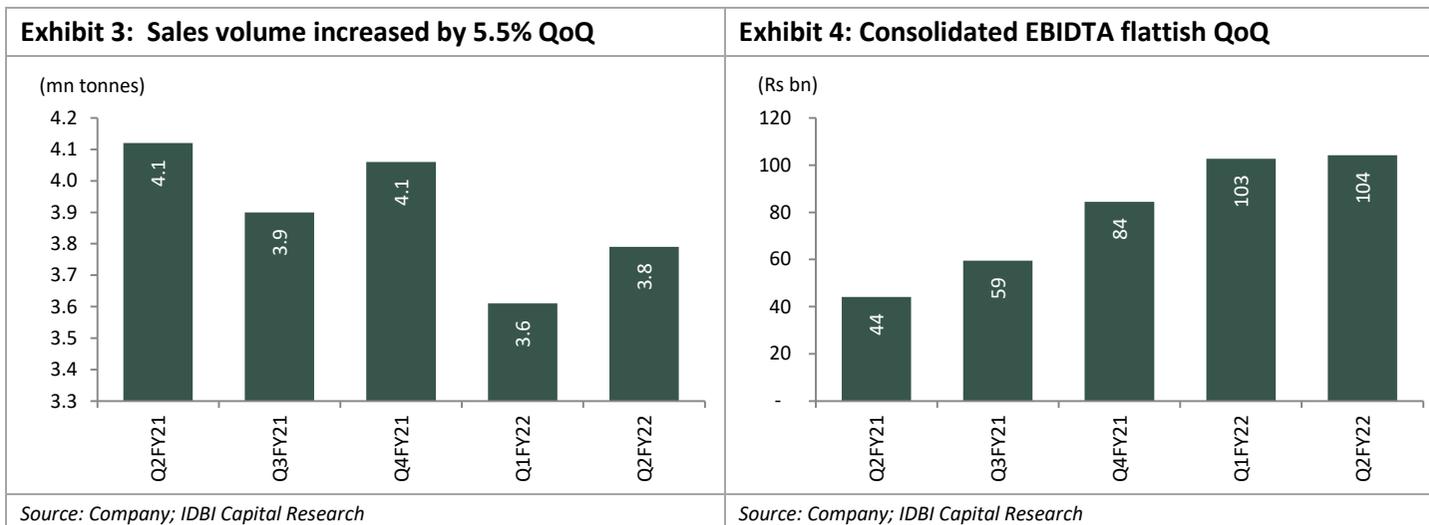
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)

	Q2FY22E	Q2FY22A	Variance (%)
Net sales	329,107	325,030	(1.2)
EBTIDA	107,742	104,170	(3.3)
<i>Margin (%)</i>	<i>32.7</i>	<i>32.0</i>	<i>(69) bps</i>
Adj. PAT	69,026	71,790	4.0
Adj. diluted EPS (Rs)	28.6	29.7	4.0

Source: Company; IDBI Capital Research



Con-call highlights

- Aside from China, demand in other countries is robust due to government focus on infrastructure and energy transmission.
- The increase in cost of production was due to increase in prices of coking coal iron ore and iron ore prices. Higher coking coal prices remains to be an area of concern while iron ore prices has seen some correction recently.
- On raw materials front, higher coking coal prices will create an impact of \$95 - \$100/ton while lower prices of iron ore will balance it in Q3FY22.
- Company is planning to introduce Energy surcharge cess if the prices in coking coal continues to march upwards.
- Company commissioned its brownfield plant of Dolvi 5 MTPA with blast furnaces and steel melt shops with two converters of 350 mn each. This will led to an incremental production of 1.5 mn tonnes.
- Company recorded strong volume in Value Added Special Products (VASP) with a share of 60% due to increase in domestic sales in automotive, solar and many appliance segments and increase in overseas demand for coated products.
- Exports have gone up by 22% on QoQ basis which partially offset the fall in demand due to monsoon.
- During the quarter, the company spent Rs36 bn on capex, targeting to spend total Rs182 bn in FY22.

- Total capex for BPSL will be of Rs35 bn from which Rs15 bn will spent over the span of next 2.5 yrs.
- Company remains confident on steel production of 18.5 mn tonnes in FY22 with an incremental production of 1.5 mn tonnes from Dolvi plant expansion.

Exhibit 5: Change in estimates

	FY22E			FY23E			FY24E
	Old	New	(%) Chg	Old	New	(%) Chg	
Revenue (Rs mn)	12,47,168	12,68,017	1.7	12,97,341	14,46,002	11.5	15,41,183
EBITDA (Rs mn)	3,64,538	3,62,748	(0.5)	2,97,339	3,36,170	13.1	3,42,858
EBITDA margin (%)	29.2	28.6	-62bps	22.9	23.2	33bps	22.2
Net profit (Rs mn)	2,05,110	2,03,768	(0.7)	1,47,990	1,77,113	19.7	1,74,707
EPS (Rs)	85.1	84.6	(0.7)	61.4	73.5	19.7	72.5

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	798,390	1,268,017	1,446,002	1,541,183
<i>Growth (%)</i>	8.9	58.8	14.0	6.6
Operating expenses	(596,980)	(905,269)	(1,109,833)	(1,198,325)
EBITDA	201,410	362,748	336,170	342,858
<i>Growth (%)</i>	69.6	80.1	(7.3)	2.0
Depreciation	(46,790)	(50,533)	(54,576)	(58,942)
EBIT	154,620	312,214	281,594	283,916
Interest paid	(39,570)	(43,923)	(48,754)	(54,117)
Other income	5,920	6,394	6,905	7,457
Pre-tax profit	120,980	274,685	239,745	237,256
Tax	(41,420)	(68,671)	(59,936)	(59,314)
<i>Effective tax rate (%)</i>	34.2	25.0	25.0	25.0
Minority Interest	(1,872)	(2,246)	(2,696)	(3,235)
Net profit	77,688	203,768	177,113	174,707
Exceptional items	840	-	-	-
Adjusted net profit	76,848	203,768	177,113	174,707
<i>Growth (%)</i>	107.9	165.2	(13.1)	(1.4)
<i>Shares o/s (mn nos)</i>	2,410	2,410	2,410	2,410

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	120,980	276,475	239,745	237,256
Depreciation	(46,790)	(50,533)	(54,576)	(58,942)
Tax paid	(23,100)	(69,119)	(59,936)	(59,314)
Chg in working capital	137,470	(6,737)	5,751	10,050
Other operating activities	40,134	(693)	(479)	-
Cash flow from operations (a)	322,274	250,460	239,657	246,934
Capital expenditure	(127,180)	(190,000)	(200,000)	(150,000)
Chg in investments	(75,730)	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(202,910)	(190,000)	(200,000)	(150,000)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(93,240)	(50,000)	(70,000)	(70,000)
Dividend (incl. tax)	(15,712)	(16,920)	(19,338)	(24,172)
Chg in minorities	(2,312)	(4,493)	(5,391)	(6,470)
Other financing activities	-	-	-	-
Cash flow from financing (c)	(111,264)	(71,413)	(94,729)	(100,642)
Net chg in cash (a+b+c)	8,100	(10,954)	(55,072)	(3,708)

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	972,240	1,111,707	1,257,131	1,348,189
Investments	88,320	88,320	88,320	88,320
Other non-curr assets	64,160	64,160	64,160	64,160
Current assets	358,440	458,374	448,242	470,104
Inventories	142,490	226,305	258,070	275,058
Sundry Debtors	44,860	71,247	81,248	86,596
Cash and Bank	128,130	114,922	59,850	55,949
Marketable Securities	-	-	-	-
Loans and advances	6,220	6,220	6,220	6,220
Other current assets	36,740	39,679	42,854	46,282
Total assets	1,483,160	1,722,561	1,857,853	1,970,773
Shareholders' funds	467,630	658,066	809,237	965,571
Share capital	3,010	3,010	3,010	3,010
Reserves & surplus	464,620	653,714	814,184	967,954
Total Debt	517,300	467,300	397,300	327,300
Secured loans	497,310	447,310	377,310	307,310
Unsecured loans	19,990	19,990	19,990	19,990
Other liabilities	91,420	91,420	91,420	91,420
Curr Liab & prov	413,000	515,553	563,071	595,456
Current liabilities	410,260	512,813	560,331	592,716
Provisions	2,740	2,740	2,740	2,740
Total liabilities	1,021,720	1,074,273	1,051,791	1,014,176
Total equity & liabilities	1,483,160	1,722,561	1,857,853	1,970,773
Book Value (Rs)	194	272	339	403

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	31.9	84.6	73.5	72.5
Adj. EPS growth (%)	107.9	165.2	-13.1	-1.4
EBITDA margin (%)	25.2	28.6	23.2	22.2
Pre-tax margin (%)	15.2	21.7	16.6	15.4
ROE (%)	18.4	36.2	24.0	19.5
ROCE (%)	14.6	27.4	22.5	21.3
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.6	0.8	0.8	0.8
Leverage factor (x)	3.4	2.9	2.4	2.1
Net margin (%)	9.6	16.1	12.2	11.3
Net Debt/Equity (x)	0.8	0.5	0.4	0.3
Working Capital & Liquidity ratio				
Inventory days	65	65	65	65
Receivable days	21	21	21	21
Payable days	93	98	91	90

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	21.2	8.0	9.2	9.3
Price / Book value (x)	3.5	2.5	2.0	1.7
PCE (x)	13.2	6.4	7.0	7.0
EV / Net sales (x)	2.5	1.6	1.4	1.2
EV / EBITDA (x)	10.0	5.5	5.9	5.6
Dividend Yield (%)	1.0	1.0	1.2	1.5



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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