

JSW Steel

ACCUMULATE

Strong operating performance; Massive expansion ahead

Summary

JSW Steel's (JSW) Q4FY21 EBITDA was a beat. EBITDA jumped 184% YoY at Rs84 bn mainly on sharp increase in realization; sales volumes grew 11% YoY to 4 mn tonnes. Despite cash outflows of Rs150 bn during FY21 (related to Bhushan Power acquisition and expansions), its consolidated net debt declined by Rs8.6 bn in FY21.

We raise our FY22/FY23 realization and EBITDA estimates given sharp rise in steel prices during Q4FY21 which we expect to sustain. Our FY22/FY23 EBITDA is revised higher by 22%/17%. We raise our EV/EBITDA multiple to 7.5x FY23 EBITDA (earlier 6x) as JSW's expansion plans provide strong volume growth visibility over FY21-FY25. We derive a target price of Rs750 (earlier Rs387) and upgrade the stock to an ACCUMULATE from HOLD earlier.

Key Highlights and Investment Rationale

- Strong operating performance:** Realization jumped 22% QoQ to Rs60,094/tonne driven by favorable product mix and higher steel prices. JSW's utilization improved to 96% by March 2021 compared to 91% in Q3FY21. It has completed 8 mtpa pellet plant in Vijaynagar while its 5 mtpa Dolvi expansion will be complete by H1FY22.
- Capex and FY22 sales guidance:** JSW expects standalone sales volumes at 17.4 mn tonnes in FY22 (14.9 mn tonnes in FY21). It has announced expansion at its Vijaynagar steel plant by 5 mtpa with capex of only Rs150 bn (Rs30 bn per mn tonnes), which is far cheaper than greenfield expansions. Also, expansion is likely to be completed without meaningful delays as this is a brownfield expansion in our view. This, alongside Dolvi expansion, provides strong volume growth visibility for JSW over the coming five years.
- 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 FY22 as China curbs its steel capacities in H2CY21. JSW Steel remains well-poised to benefit over the coming 5 years on account of low-cost brownfield expansions.

TP	Rs750	
CMP	Rs698	
Potential upside / downside	+7%	
Previous Rating	HOLD	
V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	59.4	46.1
Consensus	52.5	51.0
% difference	13.1	(9.5)

Shareholding Pattern (%)

Promoters	44.1
FII	12.7
DII	7.1
Public	36.1

Price Performance (%)

	-1m	-3m	-12m
Absolute	12.5	76.6	311.0
Rel to Sensex	6.5	77.3	247.6

Key Stock Data	
Bloomberg / Reuters Sector	JSTL IN / JSTL.BO Metal & Mining
Shares o/s (mn)	2,417
Market cap. (Rs mn)	16,86,736
Market cap. (US\$ mn)	23,157
3-m daily average value (Rs mn)	4,763.7
52-week high / low	Rs773 / 164
Sensex / Nifty	50,540 / 15,175

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	8,47,570	7,33,260	7,98,390	11,42,103	12,50,581
EBITDA	1,89,520	1,18,730	2,01,410	2,81,849	2,48,141
EBITDA (%)	22.4	16.2	25.2	24.7	19.8
Adj. PAT	72,720	36,970	76,848	1,43,094	1,11,091
EPS (Rs)	30.2	15.3	31.9	59.4	46.1
EPS Growth (%)	24.0	(49.2)	107.9	86.2	(22.4)
PE (x)	23.1	45.5	21.9	11.8	15.1
Dividend Yield (%)	0.6	0.7	0.9	1.0	1.1
EV/EBITDA (x)	10.9	18.3	10.3	7.3	8.3
RoE (%)	23.2	10.4	18.4	26.9	17.3
RoCE (%)	18.4	7.9	14.6	20.9	16.7

Source: Company; IDBI Capital Research

Exhibit 1: Quarterly Snapshot (Consolidated)

(Rs mn)

Financial snapshot	Q4FY21	Q3FY21	QoQ (%)	Q4FY20	YoY (%)
Net Sales	2,69,340	2,18,590	23.2	1,78,870	50.6
Total expenditure	1,84,940	1,59,130	16.2	1,49,120	24.0
EBITDA	84,400	59,460	41.9	29,750	183.7
<i>EBITDA margin (%)</i>	31.3	27.2	413bps	16.6	1470bps
Interest	10,050	9,770	2.9	10,360	(3.0)
Depreciation	12,530	12,300	1.9	11,080	13.1
PBT	63,430	38,860	63.2	9,530	565.6
Tax	20,810	12,120	71.7	(690)	(3,115.9)
PAT	41,910	26,690	57.0	1,880	2,129.3
Diluted EPS	17.7	11.0	60.1	4.1	330.4

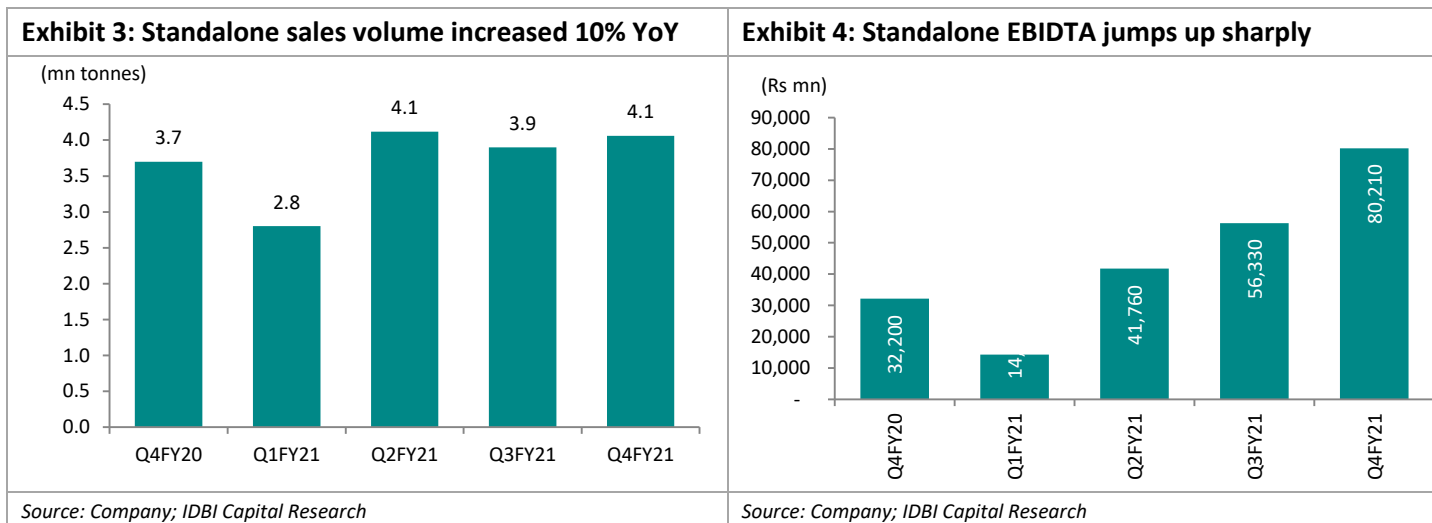
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs estimates

(Rs mn)

	Q4FY21E	Q4FY21A	% Variance
Net sales	2,44,998	2,69,340	9.9
EBTIDA	72,005	84,400	17.2
<i>Margin (%)</i>	29.4	31.3	195bps
PAT	38,466	41,910	9.0
Dil. EPS	15.9	17.7	11.1

Source: Company; IDBI Capital Research



Con-call highlights

- The company was able to achieve volume guidance during FY21 on the back of higher exports.
- JSW Steel standalone crude steel production for FY22 is expected to be 19.5 mn tonnes.
- Domestic steel prices are at 15-20% discount compared to international prices.
- Dolvi capacity expansion from 5 mn tonnes to 10 mn tonnes has been operationalized. The company now expects full integrated operations by September 2021. The delay is due to 2nd wave of Covid-19 and lower manpower at site.
- Bhushan Power and Steel was acquired in March 2021 for Rs190 bn, but JSW will hold 49% stake in it. This acquisition gives JSW Steel Strategic presence in eastern India. It is integrated steel producer with liquid steel capacity of 2.5 mn tonnes in Odisha.
- In Bhushan Power and Steel, the cost of production is expected to decline. JSW has plan to increase the capacity to 3.5 mn tonnes.
- JSW plans capex of Rs251 bn over FY22 to FY24.
- Value added steel sale increased 37% YoY and 5% on QoQ which contributed 59% to the total sales volume in Q4FY21.

Exhibit 5: Change in estimates

	FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	9,52,634	11,42,103	19.9	10,44,989	12,50,581	19.7
EBITDA (Rs mn)	2,31,515	2,81,849	21.7	2,11,436	2,48,141	17.4
<i>EBITDA margin (%)</i>	23.6	24.7	108bps	20.2	19.8	-40bps
Net profit (Rs mn)	97,000	1,43,094	47.5	93,528	1,11,091	18.8
EPS (Rs)	40.2	59.4	47.5	38.8	46.1	18.8

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	7,33,260	7,98,390	11,42,103	12,50,581
<i>Growth (%)</i>	<i>(13.5)</i>	<i>8.9</i>	<i>43.1</i>	<i>9.5</i>
Operating expenses	(6,14,530)	(5,96,980)	(8,60,253)	(10,02,441)
EBITDA	1,18,730	2,01,410	2,81,849	2,48,141
<i>Growth (%)</i>	<i>(37.4)</i>	<i>69.6</i>	<i>39.9</i>	<i>(12.0)</i>
Depreciation	(42,460)	(46,790)	(50,533)	(54,576)
EBIT	76,270	1,54,620	2,31,316	1,93,565
Interest paid	(42,650)	(39,570)	(43,923)	(48,754)
Other income	5,460	5,920	6,394	6,905
Pre-tax profit	38,180	1,20,980	1,93,787	1,51,716
Tax	9,060	(41,420)	(48,447)	(37,929)
<i>Effective tax rate (%)</i>	<i>(23.7)</i>	<i>34.2</i>	<i>25.0</i>	<i>25.0</i>
Minority Interest	(3,120)	(1,872)	(2,246)	(2,696)
Net profit	44,120	77,688	1,43,094	1,11,091
Exceptional items	7,150	840	-	-
Adjusted net profit	36,970	76,848	1,43,094	1,11,091
<i>Growth (%)</i>	<i>(49.2)</i>	<i>107.9</i>	<i>86.2</i>	<i>(22.4)</i>
<i>Shares o/s (mn nos)</i>	<i>2,410</i>	<i>2,410</i>	<i>2,410</i>	<i>2,410</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	38,180	1,20,980	1,93,787	1,51,716
Depreciation	(42,460)	(46,790)	(50,533)	(54,576)
Tax paid	(13,110)	(23,100)	(48,447)	(37,929)
Chg in working capital	37,270	1,37,470	(2,142)	8,791
Other operating activities	(8,970)	40,134	(693)	(479)
Cash flow from operations (a)	87,810	3,22,274	1,93,039	1,76,675
Capital expenditure	(1,80,960)	(1,27,180)	(1,60,000)	(1,50,000)
Chg in investments	6,350	(75,730)	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(1,74,610)	(2,02,910)	(1,60,000)	(1,50,000)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	1,61,280	(93,240)	(50,000)	(70,000)
Dividend (incl. tax)	(11,950)	(15,712)	(16,920)	(19,338)
Chg in minorities	(4,370)	(2,312)	(4,493)	(5,391)
Other financing activities	-	-	-	-
Cash flow from financing (c)	1,44,960	(1,11,264)	(71,413)	(94,729)
Net chg in cash (a+b+c)	58,160	8,100	(38,375)	(68,054)

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	8,91,850	9,72,240	10,81,707	11,77,131
Investments	12,590	88,320	88,320	88,320
Other non-curr assets	48,090	64,160	64,160	64,160
Current assets	3,65,670	3,58,440	4,03,660	3,64,237
Inventories	1,38,640	1,42,490	2,03,833	2,23,193
Sundry Debtors	45,050	44,860	64,173	70,268
Cash and Bank	1,20,030	1,28,130	89,755	21,702
Marketable Securities	-	-	-	-
Loans and advances	7,420	6,220	6,220	6,220
Total assets	13,18,200	14,83,160	16,37,847	16,93,848
Shareholders' funds	3,65,990	4,67,630	5,96,050	6,90,499
Share capital	3,010	3,010	3,010	3,010
Reserves & surplus	3,62,980	4,64,620	5,93,040	6,87,489
Total Debt	6,10,540	5,17,300	4,67,300	3,97,300
Secured loans	2,33,170	4,97,310	4,47,310	3,77,310
Unsecured loans	3,77,370	19,990	19,990	19,990
Other liabilities	74,350	91,420	91,420	91,420
Curr Liab & prov	2,73,070	4,13,000	4,91,514	5,25,761
Current liabilities	2,71,460	4,10,260	4,88,774	5,23,021
Provisions	1,610	2,740	2,740	2,740
Total liabilities	9,57,960	10,21,720	10,50,234	10,14,481
Total equity & liab.	13,18,200	14,83,160	16,37,847	16,93,848
Book Value (Rs)	152	194	247	287

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	15.3	31.9	59.4	46.1
Adj. EPS growth (%)	(49.2)	107.9	86.2	(22.4)
EBITDA margin (%)	16.2	25.2	24.7	19.8
Pre-tax margin (%)	5.2	15.2	17.0	12.1
ROE (%)	10.4	18.4	26.9	17.3
ROCE (%)	7.9	14.6	20.9	16.7
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.6	0.6	0.7	0.8
Leverage factor (x)	3.5	3.4	2.9	2.6
Net margin (%)	5.0	9.6	12.5	8.9
Net Debt/Equity (x)	1.3	0.8	0.6	0.5
Working Capital & Liquidity ratio				
Inventory days	69	65	65	65
Receivable days	22	21	21	21
Payable days	59	93	93	87

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	45.5	21.9	11.8	15.1
Price / Book value (x)	4.6	3.6	2.8	2.4
PCE (x)	21.2	13.6	8.7	10.2
EV / Net sales (x)	3.0	2.6	1.8	1.6
EV / EBITDA (x)	18.3	10.3	7.3	8.3
Dividend Yield (%)	0.7	0.9	1.0	1.1



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

IDBI Capital Markets & Securities Ltd.
Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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Compliance Officer: Christina D’souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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