

JSW Steel

BUY

Poised for strong volume growth

Summary

JSW Steel's Q3FY22 EBITDA was 6% ahead of our forecast although it fell 12% QoQ to Rs91 bn as coking coal prices increased by \$100/t QoQ. Bhushan Power & Steel reported EBITDA of Rs15 bn, indicating a strong EBITDA/t of Rs26,672. JSW's FY22 sales guidance indicate over 5 mn tonnes of steel sales in Q4FY22 (implies ~26% YoY jump) as its Dolvi phase II will aid higher production. We lower our FY23-FY24 EBITDA estimates by 2-7% to factor rise in prices of raw materials. We continue to 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 Rs813 (earlier Rs876) and maintain our BUY rating on the stock.

Key Highlights and Investment Rationale

- Export volumes lower:** Export sales accounted for 15% of the total sales in Q3FY22 which was around 30% of total sales in Q2FY22. Increase in the capacity utilization rate to 94% from the existing operations and production volumes of 0.18 mnt from its recent Dolvi phase II expansion led to higher production.
- Project updates:** JSW plans to set up two power plants at Dolvi. Out of the two, one is likely to be commissioned in Feb 22 and the other, in Mar 22 — these measures will further reduce the cost of production. The coke oven plant in Vijayanagar and downstream lines such as GI in Vijayanagar, tinsplate II at Tarapur will commissioned by June 2020.
- Outlook:** In the near-term, we anticipate Indian companies to export higher proportion of steel if the domestic demand weakens. 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	Rs813
CMP	Rs667
Potential upside/downside	22%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	2.6	(0.2)	77.5
Rel to Sensex	(0.4)	2.7	56.7

V/s Consensus

EBITDA (Rs bn)	FY22E	FY23E	FY24E
IDBI Capital	412	329	317
Consensus	397	347	367
% difference	79.3	(5.1)	(13.6)

Key Stock Data

Bloomberg / Reuters	JSTL IN / JSTL.BO
Sector	Metal & Mining
Shares o/s (mn)	2,417
Market cap. (Rs mn)	1,611,440
3-m daily average value (Rs mn)	121.6
52-week high / low	Rs777 / 356
Sensex / Nifty	59,037 / 17,617

Shareholding Pattern (%)

Promoters	44.7
FII	11.2
DII	8.4
Public	35.7

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	733,260	798,390	1,454,295	1,651,214	1,513,720
Change (yoy, %)	(13)	9	82	14	(8)
EBITDA	118,730	201,410	412,496	329,633	317,662
Change (yoy, %)	(37)	70	105	(20)	(4)
EBITDA Margin(%)	16.2	25.2	28.4	20.0	21.0
Adj.PAT	36,970	76,848	220,577	161,706	143,370
EPS (Rs)	15.3	31.9	91.5	67.1	59.5
Change (yoy, %)	(49)	108	187	(27)	(11)
PE(x)	44.2	21.3	7.4	10.1	11.4
Dividend Yield (%)	0.7	1.0	1.0	1.2	1.5
EV/EBITDA (x)	17.9	10.1	4.8	5.9	6.0
RoE (%)	10.4	18.4	38.4	21.3	15.9
RoCE (%)	7.9	14.6	30.8	21.0	18.8

Source: IDBI Capital Research

Exhibit 1: Quarterly Snapshot (Consolidated)

(Rs mn)

Year-end: March	Q3FY22	Q2FY22	QoQ (%)	Q3FY21	YoY (%)
Net sales	380,710	325,030	17.1	218,590	74.2
Expenditure	289,390	220,860	31.0	159,130	81.9
EBITDA	91,320	104,170	(12.3)	59,460	53.6
<i>EBITDA margin (%)</i>	<i>24.0</i>	<i>32.0</i>	<i>(806bps)</i>	<i>27.2</i>	<i>(321bps)</i>
EBITDA per ton	22,830	27,485	(16.9)	15,246	49.7
Interest	12,830	9,360	37.1	9,770	31.3
Depreciation	17,640	12,390	42.4	12,300	43.4
PBT	62,390	91,880	(32.1)	38,860	60.6
Tax	17,450	26,120	(33.2)	12,120	44.0
Net profit	45,160	71,790	(37.1)	26,690	69.2
Adj. diluted EPS (Rs)	18.7	29.7	(37.1)	11.0	69.2

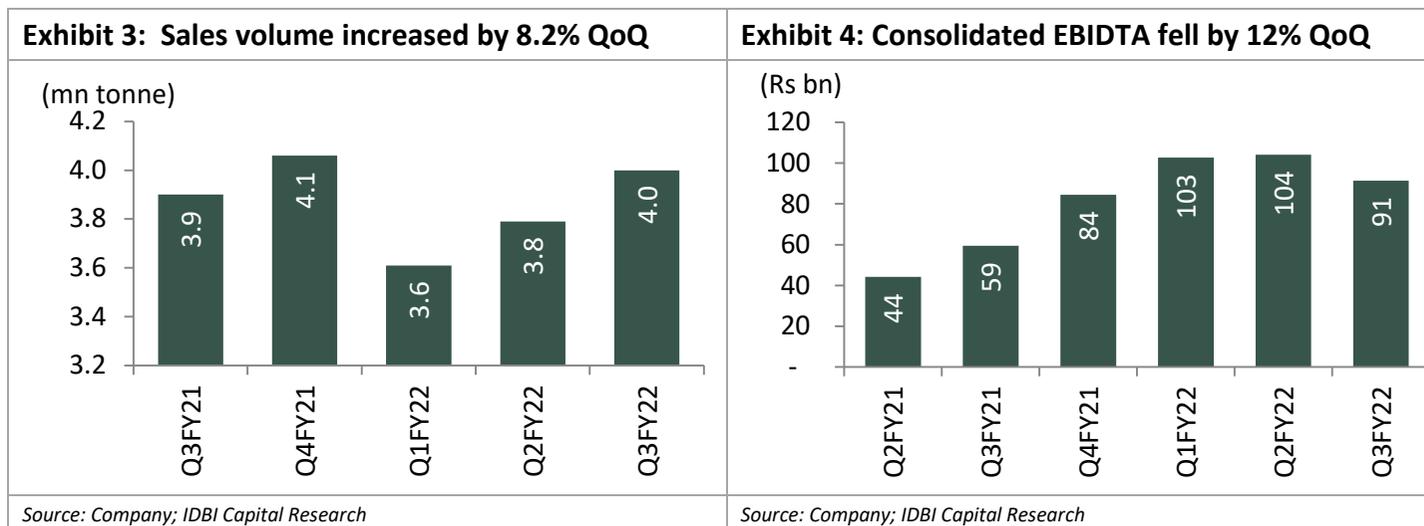
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)

	Q3FY22E	Q3FY22A	Variance (%)
Net sales	351,667	380,710	8.3
EBTIDA	86,549	91,320	5.5
Margin (%)	24.6	24.0	(62bps)
EBITDA/tonne	21,106	22,830	8.2
Adj. PAT	61,624	45,160	(26.7)
Adj. diluted EPS (Rs)	25.5	18.7	(26.7)

Source: Company; IDBI Capital Research



Con-call highlights

- In Q3FY22, company’s crude steel production increased by 8% QoQ to 4.41 mn tonnes on a standalone basis led by an increase in average capacity utilization of 94% from the existing operations.
- Sales of saleable steel increased by 6% QoQ to 4 mn tonnes on account of an increase in domestic sales, driven by demand from automotive, solar and appliance sectors.
- During the quarter, company witnessed an increase in cost of production primarily due to higher coking coal price. However, correction in iron ore prices helped to support EBITDA margins from further reduction.
- The company’s net profit reduced by 37% QoQ to Rs45,167 mn led by higher interest cost, depreciation on completion and capitalization of projects.
- JSW steel commenced its brownfield plant of Dolvi 5 mn tonnes and commercial production has started in mid of Nov’21 while company is targeting to complete a total capacity of 23 mn tonnes by FY24.

- The company recorded strong volume in Value Added Special Products (VASP) with a share of 62% vs 57% in Q3FY21 led by increase in domestic sales in automotive, solar and many appliance segments.
- On a consolidated basis, net debt to equity stood at 1.02x as compared to 0.92x in Q2FY22 led by increasing in short term loans for working capital requirement.
- The company spent Rs40 bn on capex, targeting to spend total Rs182 bn in FY22 while capex for BPSL will be Rs35 bn from which Rs15 bn will spent to reduce cost while remaining Rs20 bn will be used to increase the existing capacity i.e from 2.7 mn tonnes to 3.5 mn tonnes.
- Going ahead, overseas market continues to remain robust due to softening of container cost and reduction in Chinese steel exports which is expected to pertain till H1FY23.
- Topline contribution from Export market is expected to be in the range of 20-25% in Q4FY22.
- Q4FY22 is expected to witness higher volume growth due to increase in production of Dolvi plant. Moreover, 2nd Color Galvanized Line(CGL) and Color Coating Line (CCL) will get commissioned by Q4FY22.
- The Company remains confident on steel production of 18.5 mn tonnes in FY22 with better sales volume in next quarter.

Exhibit 5: Change in estimates

	FY22E			FY23E			FY24E		
	Old	New	(%) Chg	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	1,268,017	1,454,295	14.7	1,446,002	1,651,214	14.2	1,541,183	1,513,720	(1.8)
EBITDA (Rs mn)	362,748	412,496	13.7	336,170	329,633	(1.9)	342,858	317,662	(7.3)
EBITDA margin (%)	28.6	28.4	(24bps)	23.2	20.0	(324bps)	22.2	21.0	(121bps)
Net profit (Rs mn)	203,768	220,577	8.2	177,113	161,706	(8.7)	174,707	143,370	(17.9)
EPS (Rs)	84.6	91.5	8.2	73.5	67.1	(8.7)	72.5	59.5	(17.9)

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	847,570	733,260	798,390	1,454,295	1,651,214	1,513,720
<i>Change (yoy, %)</i>	18	(13)	9	82	14	(8)
Operating expenses	(658,050)	(614,530)	(596,980)	(1,041,799)	(1,321,581)	(1,196,058)
EBITDA	189,520	118,730	201,410	412,496	329,633	317,662
<i>Change (yoy, %)</i>	28	(37)	70	105	(20)	(4)
<i>Margin (%)</i>	22.4	16.2	25.2	28.4	20.0	21.0
Depreciation	(40,410)	(42,460)	(46,790)	(59,676)	(64,451)	(69,607)
EBIT	149,110	76,270	154,620	352,820	265,182	248,055
Interest paid	(39,170)	(42,650)	(39,570)	(44,822)	(49,752)	(55,225)
Other income	2,040	5,460	5,920	14,535	15,698	16,954
Pre-tax profit	111,680	38,180	120,980	322,533	231,128	209,785
Tax	(36,440)	9,060	(41,420)	(92,256)	(57,782)	(52,446)
<i>Effective tax rate (%)</i>	33	(24)	34	29	25	25
Minority Interest	(2,820.0)	(3,120.0)	(1,872)	(9,700)	(11,640)	(13,968)
Net profit	72,420	44,120	77,688	220,577	161,706	143,370
Exceptional items	(300)	7,150	840	-	-	-
Adjusted net profit	72,720	36,970	76,848	220,577	161,706	143,370
<i>Change (yoy, %)</i>	24.0	(49.2)	107.9	187.0	(26.7)	(11.3)
EPS	30.2	15.3	31.9	91.5	67.1	59.5
Dividend per share	3.9	5.0	6.5	7.0	8.0	10.0
<i>Dividend Payout %</i>	12.8	32.3	20.4	7.7	12.0	16.9

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Shareholders' funds	347,950	365,990	467,630	680,987	834,995	968,162
Share capital	3,010	3,010	3,010	3,010	3,010	3,010
Reserves & surplus	344,940	362,980	464,620	677,977	831,985	965,152
Total Debt	449,260	610,540	517,300	467,300	397,300	327,300
Other liabilities	89,050	74,350	91,420	91,420	91,420	91,420
Curr Liab & prov	267,380	273,070	413,000	551,118	602,250	590,213
Current liabilities	266,040	271,460	410,260	548,378	599,510	587,473
Provisions	1,340	1,610	2,740	2,740	2,740	2,740
Total liabilities	805,690	957,960	1,021,720	1,109,838	1,090,970	1,008,933
Total equity & liabilities	1,149,140	1,318,200	1,483,160	1,774,934	1,898,435	1,935,596
Net fixed assets	745,330	891,850	972,240	1,102,564	1,238,113	1,318,507
Investments	18,940	12,590	88,320	88,320	88,320	88,320
Other non-curr assets	50,140	48,090	64,160	64,160	64,160	64,160
Current assets	334,730	365,670	358,440	519,891	507,842	464,610
Inventories	145,480	138,640	142,490	259,550	294,695	270,156
Sundry Debtors	71,600	45,050	44,860	81,714	92,779	85,053
Cash and Bank	61,870	120,030	128,130	132,727	71,295	56,898
Loans and advances	5,610	7,420	6,220	6,220	6,220	6,220
Other current assets	50,170	54,530	36,740	39,679	42,854	46,282
Total assets	1,149,140	1,318,200	1,483,160	1,774,934	1,898,435	1,935,596

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	111,680	38,180	120,980	322,533	231,128	209,785
Depreciation	(40,410)	(42,460)	(46,790)	(59,676)	(64,451)	(69,607)
Tax paid	(23,540)	(13,110)	(23,100)	(92,256)	(57,782)	(52,446)
Chg in working capital	41,470	37,270	137,470	(15,796)	4,923	20,227
Other operating activities	24,360	(8,970)	40,134	(693)	(479)	-
Cash flow from operations (a)	193,600	87,810	322,274	273,464	242,241	247,172
Capital expenditure	(146,980)	(180,960)	(127,180)	(190,000)	(200,000)	(150,000)
Chg in investments	(4,250)	6,350	(75,730)	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(151,230)	(174,610)	(202,910)	(190,000)	(200,000)	(150,000)
Equity raised/(repaid)	(10)	-	-	-	-	-
Debt raised/(repaid)	20,890	161,280	(93,240)	(50,000)	(70,000)	(70,000)
Dividend (incl. tax)	(9,330)	(11,950)	(15,712)	(16,920)	(19,338)	(24,172)
Chg in minorities	(2,680)	(4,370)	(2,312)	(19,400)	(23,280)	(27,936)
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	8,870	144,960	(111,264)	(86,320)	(112,618)	(122,108)
Net chg in cash (a+b+c)	51,240	58,160	8,100	(2,856)	(70,376)	(24,936)

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	144	152	194	283	346	402
Adj EPS (Rs)	30.2	15.3	31.9	91.5	67.1	59.5
Adj EPS growth (%)	24.0	(49.2)	107.9	187.0	(26.7)	(11.3)
EBITDA margin (%)	22.4	16.2	25.2	28.4	20.0	21.0
Pre-tax margin (%)	13.2	5.2	15.2	22.2	14.0	13.9
Net Debt/Equity (x)	1.1	1.3	0.8	0.5	0.4	0.3
ROCE (%)	18.4	7.9	14.6	30.8	21.0	18.8
ROE (%)	23.2	10.4	18.4	38.4	21.3	15.9
DuPont Analysis						
Asset turnover (x)	0.8	0.6	0.6	0.9	0.9	0.8
Leverage factor (x)	3.3	3.5	3.4	2.8	2.4	2.1
Net margin (%)	8.6	5.0	9.6	15.2	9.8	9.5
Working Capital & Liquidity ratio						
Inventory days	63	69	65	65	65	65
Receivable days	31	22	21	21	21	21
Payable days	40	59	93	97	87	88

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	22.5	44.2	21.3	7.4	10.1	11.4
Price/Book value (x)	4.7	4.5	3.5	2.4	2.0	1.7
EV/Net sales (x)	2.4	2.9	2.5	1.4	1.2	1.3
EV/EBITDA (x)	10.7	17.9	10.1	4.8	5.9	6.0
Dividend Yield (%)	0.6	0.7	1.0	1.0	1.2	1.5

Source: Company; IDBI Capital Research



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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