

May 25, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

Rating	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Target Price	REDUCE 140		REDUCE 145	
Sales (Rs. m)	6,79,875	9,08,248	6,79,875	9,08,248
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,03,919	1,63,887	1,03,919	1,63,887
% Chng.	-	-	-	-
EPS (Rs.)	4.1	15.5	3.4	13.8
% Chng.	20.8	12.7	-	-

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. bn)	848	731	680	908
EBITDA (Rs. bn)	190	116	104	164
Margin (%)	22.4	15.9	15.3	18.0
PAT (Rs. bn)	76	41	10	38
EPS (Rs.)	31.6	17.1	4.1	15.5
Gr. (%)	30.5	(46.0)	(75.8)	275.5
DPS (Rs.)	4.1	2.0	2.0	4.0
Yield (%)	2.5	1.2	1.2	2.4
RoE (%)	24.3	11.6	2.7	9.4
RoCE (%)	20.0	8.5	5.8	9.9
EV/Sales (x)	1.0	1.1	1.4	1.1
EV/EBITDA (x)	4.3	7.1	9.0	5.8
PE (x)	5.3	9.7	40.2	10.7
P/BV (x)	1.2	1.1	1.1	1.0

Key Data

JSTL.BO | JSTL IN

52-W High / Low	Rs.298 / Rs.133
Sensex / Nifty	30,673 / 9,039
Market Cap	Rs.402bn / \$ 5,288m
Shares Outstanding	2,417m
3M Avg. Daily Value	Rs.4058.61m

Shareholding Pattern (%)

Promoter's	42.71
Foreign	17.13
Domestic Institution	4.39
Public & Others	35.77
Promoter Pledge (Rs bn)	123.09

Stock Performance (%)

	1M	6M	12M
Absolute	3.1	(33.9)	(40.0)
Relative	5.4	(13.0)	(23.5)

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B/S deterioration gathers pace, Maintain Reduce

Quick Pointers:

- Commissioning of 5mtpa Dolvi expansion delayed by 6 months to H2FY21e
- Net Debt rose 8% QoQ/Rs39bn (+16% YoY/Rs75bn) to Rs535bn

JSW Steel (JSTL) posted Q4FY20 EBITDA below our estimates by 11% due to lower than expected earnings in domestic subsidiaries and higher inter-company eliminations. Impacted by tepid domestic demand and lower exports, sales volume fell 8% QoQ/14% YoY to 3.7mnt (PLe:3.75mnt). Realisations rose 8% or Rs2,880/t QoQ (down 10% or Rs4,310/t YoY) to Rs40,600 (PLe:Rs40,415). Cost/t remained flat QoQ to Rs32,585 (PLe:Rs32,600)/t. Hence, EBITDA/t came in line with our estimates at Rs8,700 (PLe:Rs8,500), up 45% QoQ/14% YoY.

Management guided to maintain volumes in FY21e at 15mnt on expectation of strong growth in exports (on a high base of +30% YoY growth in FY20) and usual hope of recovery in H2. Strong push in exports would come at long-term cost of additional anti-dumping or safeguard duties by importing markets to protect their domestic industry. We reiterate our negative outlook on the stock due to deteriorating B/S (FY20 Net debt/EBITDA at 4.5x v/s 2.43x in FY19), overhang of Bhushan Power and Steel (BPSL) acquisition, stretched valuations and weak earnings outlook. We maintain Reduce with TP of Rs140, EV/EBITDA of 5.7x FY22e.

- M:** USA Pipe and Plate mill/Acero/Italy based Aferpi operations reported EBITDA losses at USD10mn/USD20mn/USD12mn (PLe: Loss of USD11mn/USD21mn/ USD11mn). EBITDA of domestic subs fell 14% QoQ to Rs2.3bn (PLe:Rs3.0bn). However, the addition on consol level was limited at Rs0.5bn due to eliminations of profit on inventory. Hence, consolidated EBITDA came below our estimate at Rs29.8bn (PLe:Rs33.7bn), up 35% QoQ (133% YoY). Adj for impairment of Rs8bn recognised on investment in overseas subsidiaries, PAT came at Rs7.9bn (PLe:Rs8.8bn) v/s Rs0.4bn in Q3FY20 and down 48% YoY.
- Key highlights of Con-call:** **1)** Currently operating at 85% utilisation **2)** Won four iron ore mines in Odisha under auction with approved capacity of 29mnt **3)** Will start production at two of the above mines by July'20 **4)** Will source 16mnt/7mnt iron ore from captive mines in Odisha/Karnataka, equivalent to 72% of requirement **5)** Calibrated capex with postponement of spending in downstream facilities **6)** Curtailed capex guidance for FY21e by 45% to Rs90bn (FY20:Rs102bn), includes capex of Rs8bn on mines won in Odisha and Karnataka **7)** Will spend Rs164bn over FY22e and FY23e **8)** Rs75bn of debt scheduled for repayment in FY21e **9)** Impending acquisition of BPSL would get delayed due to Covid-19 pandemic **10)** Sees Net Debt/EBITDA peaked-out at current levels **11)** Inventory increased by 100kt QoQ/225kt YoY in Q4 at 1.16mnt. However, started declining in May'20 **12)** Coking coal cost will be flat QoQ in Q1FY21e at US\$141-142/t **13)** Benefit of USD25-30/t fall in coking coal prices would be visible Q2FY20e onwards **14)** Targeting to reduce commercial buying/fix cost by 10-15% in FY21e.

Exhibit 1: Q4FY20 Result Overview (Rs mn)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	1,78,870	2,23,680	(20.0)	1,78,050	7,26,100	8,47,570	(14.3)
Raw Material	88,160	1,20,000	(26.5)	1,00,370	3,85,950	4,29,930	(10.2)
<i>% of Net Sales</i>	<i>49.3</i>	<i>53.6</i>		<i>56.4</i>	<i>53.2</i>	<i>50.7</i>	
Purchase of traded goods	890	760		160	1,350	3,200	
<i>% of Net Sales</i>	<i>0.5</i>	<i>0.3</i>		<i>0.1</i>	<i>0.2</i>	<i>0.4</i>	
Staff Costs	7,180	7,010	2.4	7,090	28,390	24,890	14.1
<i>% of Net Sales</i>	<i>4.0</i>	<i>3.1</i>		<i>4.0</i>	<i>3.9</i>	<i>2.9</i>	
Power & Fuel	15,280	16,440	(7.1)	14,930	62,720	70,530	(11.1)
<i>% of Net Sales</i>	<i>8.5</i>	<i>7.3</i>		<i>8.4</i>	<i>8.6</i>	<i>8.3</i>	
Other Expenses	37,610	35,070	7.2	33,490	1,36,120	1,29,500	5.1
<i>% of Net Sales</i>	<i>21.0</i>	<i>15.7</i>		<i>18.8</i>	<i>18.7</i>	<i>15.3</i>	
Total Expenditure	1,49,120	1,79,280	(16.8)	1,56,040	6,14,530	6,58,050	(6.6)
EBITDA	29,750	44,400	(33.0)	22,010	1,11,570	1,89,520	(41.1)
<i>Margin (%)</i>	<i>16.6</i>	<i>19.8</i>		<i>12.4</i>	<i>15.4</i>	<i>22.4</i>	
Depreciation	11,080	10,840	2.2	10,550	42,460	40,410	5.1
Other income	1,220	530	130.2	1,270	5,460	2,040	167.6
EBIT	19,890	34,090	(41.7)	12,730	74,570	1,51,150	(50.7)
Interest	10,360	10,460	(1.0)	10,600	42,650	39,170	8.9
PBT	9,530	23,630	(59.7)	2,130	31,920	1,11,980	(71.5)
Extraordinary income/(expense)	(8,050)	-		2,500	(890)	-	
PBT (After EO)	1,480	23,630	(93.7)	4,630	31,030	1,11,980	(72.3)
Tax	(690)	8,350	(108.3)	2,490	(9,060)	36,440	(124.9)
<i>% PBT</i>	<i>-46.6</i>	<i>35.3</i>		<i>53.8</i>	<i>-29.2</i>	<i>32.5</i>	
Reported PAT	2,170	15,280	(85.8)	2,140	40,090	75,540	(46.9)
Minority interest	(430)	(280)	-	(240)	(1,110)	(1,150)	-
Share of profit/(losses) in Associates	(290)	(330)	-	(270)	(900)	(300)	-
Net Profit attributable to shareholders	2,310	15,230	(84.8)	2,110	40,300	76,390	(47.2)
Adjusted PAT	7,945	15,230	(47.8)	(390)	18,853	76,390	(75.3)

Source: Company, PL

Exhibit 2: Key Operating Metrics

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Crude steel production (000 tonnes)	3,970	4,170	(4.8)	4,020	16,070	16,690	(3.7)
Sales (000 Tonnes)	3,700	4,290	(13.8)	4,030	15,080	15,760	(4.3)
Realisation per tonne	40,595	44,904	(9.6)	37,715	41,194	47,551	(13.4)
EBITDA per tonne	8,703	10,119	(14.0)	5,998	7,754	11,708	(33.8)
Total cost per tonne	32,586	35,804	(9.0)	32,506	34,253	37,093	(7.7)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	8,47,770	7,30,760	6,79,875	9,08,248
YoY gr. (%)	17.8	(13.8)	(7.0)	33.6
Cost of Goods Sold	4,32,060	3,87,300	3,69,202	4,92,920
Gross Profit	4,15,710	3,43,460	3,10,673	4,15,329
Margin (%)	49.0	47.0	45.7	45.7
Employee Cost	24,890	28,390	19,187	21,586
Other Expenses	1,30,570	1,36,120	1,28,078	1,50,158
EBITDA	1,89,720	1,16,230	1,03,919	1,63,887
YoY gr. (%)	28.1	(38.7)	(10.6)	57.7
Margin (%)	22.4	15.9	15.3	18.0
Depreciation and Amortization	40,410	42,460	46,918	58,809
EBIT	1,49,310	73,770	57,001	1,05,078
Margin (%)	17.6	10.1	8.4	11.6
Net Interest	39,170	42,650	44,699	54,332
Other Income	1,840	5,460	5,474	5,474
Profit Before Tax	1,11,980	31,030	17,776	56,220
Margin (%)	13.2	4.2	2.6	6.2
Total Tax	36,440	(9,060)	7,788	19,112
Effective tax rate (%)	32.5	(29.2)	43.8	34.0
Profit after tax	75,540	40,090	9,988	37,108
Minority interest	(1,150)	(1,110)	(1,000)	(1,000)
Share Profit from Associate	(300)	(900)	(1,000)	(600)
Adjusted PAT	76,390	41,281	9,988	37,508
YoY gr. (%)	30.5	(46.0)	(75.8)	275.5
Margin (%)	9.0	5.6	1.5	4.1
Extra Ord. Income / (Exp)	-	(981)	-	-
Reported PAT	76,390	40,300	9,988	37,508
YoY gr. (%)	22.9	(47.2)	(75.2)	275.5
Margin (%)	9.0	5.5	1.5	4.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	76,390	40,300	9,988	37,508
Equity Shares O/s (m)	2,417	2,417	2,417	2,417
EPS (Rs)	31.6	17.1	4.1	15.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	7,66,580	8,06,790	10,82,830	11,41,880
Tangibles	7,66,580	8,06,790	10,82,830	11,41,880
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,48,540	1,91,000	2,37,240	2,96,049
Tangibles	1,48,540	1,91,000	2,37,240	2,96,049
Intangibles	-	-	-	-
Net fixed assets	6,18,040	6,15,790	8,45,590	8,45,831
Tangibles	6,18,040	6,15,790	8,45,590	8,45,831
Intangibles	-	-	-	-
Capital Work In Progress	1,39,450	2,71,910	31,730	59,920
Goodwill	8,400	4,150	8,400	8,400
Non-Current Investments	25,440	27,250	23,940	23,540
Net Deferred tax assets	(35,370)	(12,920)	(25,603)	(35,112)
Other Non-Current Assets	18,690	29,560	45,366	45,666
Current Assets				
Investments	820	20	820	820
Inventories	1,45,480	1,38,640	1,31,456	1,66,052
Trade receivables	71,600	45,050	51,061	68,218
Cash & Bank Balance	61,870	1,20,030	1,35,866	1,09,827
Other Current Assets	27,880	22,920	36,057	45,652
Total Assets	11,49,140	13,18,200	13,56,725	14,29,731
Equity				
Equity Share Capital	3,010	3,010	3,010	3,010
Other Equity	3,44,940	3,62,980	3,77,909	4,10,583
Total Network	3,47,950	3,65,990	3,80,919	4,13,593
Non-Current Liabilities				
Long Term borrowings	4,73,960	5,47,420	6,73,960	6,63,960
Provisions	2,580	3,480	2,580	2,580
Other non current liabilities	42,210	30,720	42,210	42,210
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,61,590	1,79,180	1,49,404	1,87,016
Other current liabilities	81,090	1,74,450	79,769	83,980
Total Equity & Liabilities	11,49,140	13,18,200	13,56,725	14,29,731

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	1,11,680	30,130	17,776	56,220
Add. Depreciation	40,410	42,460	46,918	58,809
Add. Interest	35,820	39,240	44,699	54,332
Less Financial Other Income	1,840	5,460	5,474	5,474
Add. Other	530	11,180	(1,474)	(1,474)
Op. profit before WC changes	1,88,440	1,23,010	1,07,919	1,67,887
Net Changes-WC	(15,810)	16,390	10,528	(29,390)
Direct tax	(26,300)	(11,550)	(4,272)	(9,603)
Net cash from Op. activities	1,46,330	1,27,850	1,14,175	1,28,893
Capital expenditures	(1,15,890)	(1,26,670)	(89,520)	(87,240)
Interest / Dividend Income	1,580	5,030	1,474	1,474
Others	(170)	(74,220)	-	-
Net Cash from Inv. activities	(1,14,480)	(1,95,860)	(88,046)	(85,766)
Issue of share cap. / premium	(1,530)	60	-	-
Debt changes	66,540	1,14,700	1,00,000	(10,000)
Dividend paid	(9,330)	(11,950)	(4,834)	(4,834)
Interest paid	(38,150)	(45,200)	(44,699)	(54,332)
Others	-	(5,720)	-	-
Net cash from Fin. activities	17,530	51,890	50,467	(69,167)
Net change in cash	49,380	(16,120)	76,596	(26,039)
Free Cash Flow	44,710	180	24,655	41,653

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	1,98,120	1,71,060	1,78,050	1,78,870
YoY gr. (%)	(3.4)	(20.6)	(12.4)	(20.0)
Raw Material Expenses	1,03,620	94,100	1,00,530	89,050
Gross Profit	94,500	76,960	77,520	89,820
Margin (%)	47.7	45.0	43.5	50.2
EBITDA	37,160	22,650	22,010	29,750
YoY gr. (%)	(27.2)	(53.8)	(51.1)	(33.0)
Margin (%)	18.8	13.2	12.4	16.6
Depreciation / Depletion	10,260	10,570	10,550	11,080
EBIT	26,900	12,080	11,460	18,670
Margin (%)	13.6	7.1	6.4	10.4
Net Interest	10,420	11,270	10,600	10,360
Other Income	1,410	1,560	1,270	1,220
Profit before Tax	17,890	7,030	4,630	1,480
Margin (%)	9.0	4.1	2.6	0.8
Total Tax	7,620	(18,480)	2,490	(690)
Effective tax rate (%)	42.6	(262.9)	53.8	(46.6)
Profit after Tax	10,270	25,510	2,140	2,170
Minority interest	(200)	(240)	(240)	(430)
Share Profit from Associates	(190)	(150)	(270)	(290)
Adjusted PAT	10,280	268	360	7,945
YoY gr. (%)	(56.6)	(98.7)	(97.8)	(47.8)
Margin (%)	5.2	0.2	0.2	4.4
Extra Ord. Income / (Exp)	-	25,332	1,750	(5,635)
Reported PAT	10,280	25,600	2,110	2,310
YoY gr. (%)	(56.6)	20.4	(87.0)	(84.8)
Margin (%)	5.2	15.0	1.2	1.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,280	25,600	2,110	2,310
Avg. Shares O/s (m)	2,417	2,417	2,417	2,417
EPS (Rs)	4.3	0.1	0.1	3.3

Source: Company Data, PL Research

Key Financial Metrics

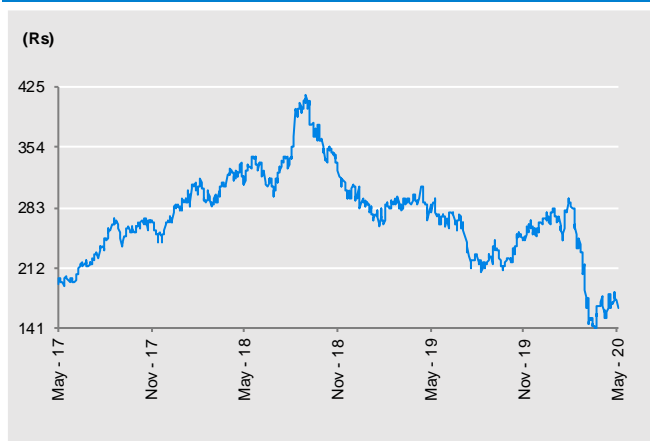
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	31.6	17.1	4.1	15.5
CEPS	48.3	34.6	23.5	39.8
BVPS	143.9	151.4	157.6	171.1
FCF	18.5	0.1	10.2	17.2
DPS	4.1	2.0	2.0	4.0
Return Ratio(%)				
RoCE	20.0	8.5	5.8	9.9
ROIC	14.7	12.7	3.8	7.3
RoE	24.3	11.6	2.7	9.4
Balance Sheet				
Net Debt : Equity (x)	1.2	1.2	1.4	1.3
Net Working Capital (Days)	24	2	18	19
Valuation(x)				
PER	5.3	9.7	40.2	10.7
P/B	1.2	1.1	1.1	1.0
P/CEPS	48.3	34.6	23.5	39.8
EV/EBITDA	4.3	7.1	9.0	5.8
EV/Sales	1.0	1.1	1.4	1.1
Dividend Yield (%)	2.5	1.2	1.2	2.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Crude Steel Prod.	17	16	15	19
Rolled Products Prod.	16	15	14	18
Sales Vol. (mt)	16	15	14	19
Realisation / tonne (Rs)	47,455	41,194	41,230	41,470
EBITDA / tonne (Rs)	11,680	7,754	6,823	8,047
Cost / tonne of iron ore (Rs)	3,487	34,253	3,150	3,000
Cost / tonne of coking coal (Rs)	15,264	11,873	13,016	13,335

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	20-Apr-20	Reduce	145	177
2	25-Jan-20	Reduce	200	272
3	03-Jan-20	Reduce	200	272
4	24-Oct-19	Reduce	185	223
5	03-Oct-19	Reduce	201	222
6	26-Jul-19	Reduce	250	250
7	04-Jul-19	Reduce	360	275
8	26-May-19	Accumulate	300	284

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,340	1,137
2	Ambuja Cement	BUY	190	172
3	Coal India	Accumulate	195	149
4	Heidelberg Cement India	Accumulate	175	147
5	Hindalco Industries	BUY	170	118
6	Hindustan Zinc	Accumulate	195	169
7	J.Kumar Infraprojects	BUY	340	185
8	Jindal Steel & Power	BUY	150	92
9	JK Lakshmi Cement	BUY	340	206
10	JSW Steel	Reduce	145	177
11	NMDC	Hold	90	80
12	Shree Cement	Hold	16,900	18,733
13	Steel Authority of India	Reduce	25	28
14	Tata Steel	Reduce	242	293
15	The Ramco Cements	Reduce	725	810
16	Ultratech Cement	BUY	4,350	3,546

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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