Stock Note

JSW Steel Limited

14-June-2021

RETAIL RESEARCH

JSW Steel Limited

Industry	LTP	Recommendation	Fair Value	Bull Case Value	Time Horizon
Metal & Mining	Rs. 731.05	Buy at LTP and add on further dip on Rs. 648-650	Rs. 804	Rs. 872.5	2 quarters

HDFC Scrip Code	JSWSTE
BSE Code	500228
NSE Code	JSWSTEEL
Bloomberg	JSTL IN
CMP June 11, 2021	731.05
Equity Capital (Rs cr)	241.7
Face Value (Rs)	1
Equity Share O/S (cr)	241.7
Market Cap (Rs cr)	176,711
Book Value (Rs)	193
Avg. 52 Wk Volumes	10,836,068
52 Week High	773.0
52 Week Low	175.95

Share holding Pattern % (Mar, 2021)	
Promoters	44.07
Institutions	14.98
Non Institutions	40.95
Total	100.0

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Our take

JSW Steel's Q4FY21 revenue and EBITDA have beaten our estimates, jumping 51% YoY to Rs. 26,934 crore and 184% YoY to Rs. 8,440 crores respectively, mainly driven by a sharp increase in realisation; sales volume increased by 11% YoY to 4.06 mn tonnes. The company's consolidated net debt declined by Rs. 858 crore. Going forward, we believe steel demand will remain robust on the back of spending on infrastructure by various countries like the US, Europe and China. In the absence of addition by China to capacities due to stricter environmental norms and lack of new supply from ASEAN region until FY23-FY24, we believe steel prices would remain firm.

JSW Steel is one of the most efficient steel manufacturers in India, has ~52% share from value add and special products (FY21) and has taken timely measures to add capacities and make acquisitions. JSW Steel has historically has been able to achieve average annual incremental ROIC of 14% which is above the weighted cost of capital of 11% over the past decade. This has been achieved through efficient in house project management team and prudent capital allocation.

Valuation and recommendation

We issued a report on JSW Steel on Oct 19, 2020 (https://www.hdfcsec.com/hsl.research.pdf/JSW%20Steel%20Ltd.%20-%20Initiating%20Coverage%20-%2019102020.pdf) recommending a buy with targets of Rs.338/372. The targets were met on Nov 11, 2020 and Dec 03, 2020 respectively. We now revisit the stock post Q4FY21 numbers and raise our targets.

We raise our FY22 and FY23 realisation, revenue, margin and PAT estimates, given the sharp rise in steel prices for the quarter ended 31 March 2021, which we expect would sustain for a few more quarters. The capex for backward integration and brownfield expansion could support margins as well as incremental volumes. We raise our EV/EBITDA multiple to 7.6x FY23E EBITDA (earlier 6.0x FY22E EBITDA), which implies Rs. 804 as a price target for the base case and believe that investors could accumulate at the current price and dips to Rs. 648-650 band. In the bull case, our EV/EBITDA multiple of 8.1x FY23E EBITDA would give the price target of Rs. 872.5.

JSW Steel Limited

Financial Summary

Rs in Cr	FY20	FY21	FY22E	FY23E
Net Revenue	73326	79839	110468	116552
EBITDA	11873	20141	31701	30868
Depreciation	4246	4679	5378	5758
Other Income	546	592	663	699
Tax	-906	4142	6025	5795
APAT	3919	7873	17150	16494
EPS (Rs)	16.2	32.7	71.2	68.4
P/E (x)	45.1	22.4	10.3	10.7
EV / EBITDA (x)	18.3	10.7	6.8	6.8
RoE (%)	11.0	18.9	31.6	23.9

Source: Company, HDFC Research; Data in Rs crore

Stellar performance in Q4 and FY21 due to metals upcycle

Rs in Cr	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY20	FY21
Net Revenue	26934	17887	50.6	21859	23.2	73326	79839
EBITDA	8440	2975	183.7	5946	41.9	11873	20141
Depreciation	1253	1108	13.1	1230	1.9	4246	4679
Other Income	161	122	32.0	147	9.5	546	592
Tax	2081	-69	-3115.9	1212	71.7	-906	4142
APAT	4262	188	2167.0	2669	59.7	3919	7873
EPS (Rs)	17.34	0.95		11.09		16.2	32.7

Key highlights of Q4FY21

Saleable steel sales for the quarter stood at 4.06 million tonnes, higher by 11 % YoY. Revenue from operations stood at Rs. 26,934 crores, an increase of 51 % YoY, with operating EBITDA at Rs. 8,440 crores. The net profit after tax for the quarter was Rs. 4,191 crores, after incorporating the financials from subsidiaries, joint ventures, and associates. Exceptional items and year ended 31 March 2021 represent impairment provision of Rs. 83 crores relating to the US coal business towards the value of property, plant and equipment and goodwill based on values determined by independent external valuers using cash flow projections of businesses and assets. Net sales realisations increased by 19% QoQ, driven by higher steel prices, favourable geographical mix, and better product mix. JSW Steel's Q4FY21 steel margins increased to record high levels and recent steel price hikes, despite cost inflation, should further expand margins in Q1FY22.

EBITDA at subsidiaries increased qoq to at Rs420 cr (vs EBITDA loss of Rs250 cr in Q4FY20, +34% qoq) in Q4FY21. Strong earnings at JSW Coated products were partly offset by losses at international operations. The US-based Plate and Pipe Mill in Texas facility is ramping up well after a planned shutdown. Sales volumes for the quarter stood at 16,485 net tons of plates and 203 net tons of pipes. It reported an EBITDA loss of US$6.6 mn for the quarter. However, operations reported an EBITDA profit in March 2021. At JSW Steel USA Ohio Inc, the US based HR coil manufacturing facility has idled the operations to undertake a furnace upgradation project during the quarter and was restarted in mid-March 2021. Sales volumes for the quarter stood at 9,880 net tons. The division reported an EBITDA loss of US$24 mn in Q4FY21. Management expects operations to become EBITDA positive in FY22 given higher steel prices.

Key highlights of FY21

Crude steel production in FY21 stood at 15.08 million tonnes, a decline of 6% YoY. Saleable steel sales for the quarter stood at 14.88 million tonnes, slightly lower by 1% as compared to the previous year. The COVID-related disruptions in Q1FY21 were offset by the strong rebound in demand in H2. Domestic sales of 10.72mt were down 9%, mainly due to slump in domestic demand in Q1FY21; consequently, exports were up 36% in FY21. Automotive sales were up 7%, while domestic automotive production contracted by 14%. Overall value-added & special products sales were up 9% (52% of overall sales vs. 48% last year), mainly driven by robust sales to automotive and increased offtake from industrial & engineering, solar, and appliances segments in H2FY21.

Revenue from operations stood at Rs. 79,839 crores, up by 8.9% compared to previous year. Operating EBITDA was Rs. 20,141 crores, growing by ~70% YoY. Operating EBITDA margin stood at 25.23% in FY21, expanded by 904 bps YoY. Profit after tax jumped 2x to Rs. 7,873 crores in FY21 from Rs. 3919 crores in FY20.

The company's consolidated net gearing (net debt/equity) stood at 1.14x at the end of the quarter (vs. 1.48x at the end of FY20) and net debt to EBITDA stood at 2.61x (vs. 4.50x at the end of 4QFY20). The debt has come down by Rs. 858 crores despite capex expenditure and acquisitions aggregating to around Rs. 15,000 crores in FY21.

Ongoing projects update

Dolvi Expansion: The expansion project at Dolvi from 5 MTPA to 10 MTPA steel-making capacity has been operationalised. The company now expects fully integrated operations by September 2021.

Vijayanagar: The 8 MTPA Pellet plant was fully commissioned in March 2021 and pellet production is underway. One out of two Continuous Galvanising Lines (CGL) has also commenced production, and the second CGL will be operationalised by Q2FY2022.

Vasind and Tarapur: All expansion is completed except CGL -4, Continuous Annealing Line (CAL), and Tinplate Line-2 at Tarapur. CGL-4 is expected to be commissioned in Q2FY22, CAL by Q4FY22 and Tinplate-2 by Q1FY23.

Significant incremental demand

Significant incremental demand is expected from several developed and emerging nations like the US, UK, Australia, China and India. Significant investments in various infrastructure projects underpin the demand for steel. China is the largest steel manufacturer, producing around 1 billion tons of steel and accounting for approximately 50-60% of the world demand. It is significantly ramping up investments in infrastructure. Indian manufacturers are earning handsome revenues by exporting steel to China. In April-September 2020, China alone accounted for 30% of India's steel exports. Domestic demand has started gaining momentum once again as many states are relaxing the lockdowns.

Developed countries will lead the next leg of growth, as they are planning to spend a massive amount on infrastructure. Europe as a part of green deal and renovation wave and the US as a part of President Biden's 'Build Back Better' plan are going to be the key drivers of steel demand.

The US is planning to spend $ 2.3 trillion over eight years, which means up to 18 MTPA incremental steel demand in the future. The UK is spending GBP 640 billion on its infra programs. Australia is spending AUD 110 billion on improving transport infrastructure.

Diversified product portfolio

JSW's diversified portfolio comprises products under hot-rolled, cold-rolled, galvanneal, galvanized/galvalume, pre-painted, tinplate, electrical steel, TMT bar, wire rod, special steel bar, round and bloom categories. JSW Steel is one of the largest exporters of flat steel

products from India. It has constantly endeavored to diversify and improve its product mix. The company is increasing the share of value-added and special products (VASP) in the portfolio (59% in Q4FY21) to become immune from the sector's cyclicality.
JSW's utilization improved to 96% by March 2021 (vs 91% in Q3FY21).

Capex in counter cyclical environment to drive value creation

JSW Steel has a stellar track record and has differentiated itself by prudently expanding its capacities. It undertook expansion of Rs. 48,000 crore in the past three years and, we believe, it invested at the right time. Currently, it is enjoying the benefits of the upcycle in commodities. JSW steel has approved new projects worth Rs. 25,115 crores and more Capex of Rs. 6,565 crores over three years from FY22-FY24. It has already announced it will increase its capacity in Vijaynagar by 5 mtpa with Capex of Rs. 15,000 crore. The company is planning to invest Rs 3,450 on increasing efficiencies in mining assets and planning to set up a 120 ktpa colour coated facility in Jammu & Kashmir for Rs 100 crore. This could support the incremental demand from domestic and export markets and backward integration would help JSW improve margins, going forward.
JSW Steel has guided for a revised capex plan of Rs47500 cr to be spent across FY22-24. The guided capex for FY22 stands at Rs18200 cr. This capex plan includes the remaining ongoing capex of Rs22300 cr and new capex plans of Rs25100 cr.

Absence of China to create demand-supply imbalance and provide export opportunities

If any Indian player were to opt for a brownfield expansion now, it would not be commissioned before the second half of FY24. Chinese capacity is unlikely to grow from current levels as the country has adopted strict environmental norms and even discouraged exports. ASEAN will lead the capacity expansion, but most of the capacity is unlikely to be commissioned before CY25.

Outlook

In the short term, we expect Indian steel makers to export a greater proportion of steel. Steel prices could remain firm in FY22 as China's steel capacity is unlikely to grow. JSW, being the lowest cost producer, remains well positioned in the industry and will derive benefits for the next few years from its low-cost brownfield expansion.

What could go wrong?

- The steel industry is inherently cyclical in nature and sensitive to the shifting business cycles. The slowdown in the demand of steel and oversupply from international market at cheaper rates will adversely impact the Indian steel industry.

- Any change in the global interest rate scenario (unexpected rise) could impact spending by private sector/Govt on Capex/Infra and hurt the price and volume trajectory for steel.

- The prices of key raw material for the industry – iron ore and coking coal – have been volatile in the recent times. Whilst some part of the iron ore requirement is met through captive mines, the coking coal requirement is largely met through imports, where volatility in prices has impacted the margins.

- The cost of iron ore produced from mines recently won in auctions will be more than the earlier cost structure because of the high bid premium.

- If Chinese capacity is ramped up before the expected time, it would impact the company's prospects.

- Delay in commencing of new capacities could drag business growth.

- Losses at overseas operations could impact the bottom-line of the consolidated business of JSW Steel.

- Steel companies are currently trading at a significantly higher P/BV than at past peaks. Further rise from here would require better visibility of continued good times for the industry.

- JSW Steel has seen lower deleveraging than its peers in FY21 due to its continued capex. This makes it more vulnerable to adverse steel cycle in future.

JSW Steel Limited

Company profile

JSW Steel is a flagship company of the JSW Group and a leading Indian integrated steel manufacturer. The company has a steelmaking capacity of 18 MTPA. Its strategically located manufacturing facilities comprise Vijaynagar works in Karnataka (12.0 MTPA), Dolvi & Salav works in Maharashtra (5.0 MTPA) and Salem works in Tamil Nadu (1.0 MTPA), along with downstream facilities for its coated products subsidiary at Vasind, Tarapur and Kamleshwar works in Maharashtra. While the Dolvi 5mtpa expansion would get commissioned in FY22, JSTL has announced 5mtpa brownfield expansion at Vijaynagar, to be completed by FY24-25. The company is one of the most cost efficient producers of steel in India. It has a large-scale presence in both international and domestic markets, with its steel retailed at over 9,500 outlets in India and exported to over a 100 countries worldwide. JSW Steel's international operations comprise a plate & pipe mill in Baytown, Texas and steel assets (Acerco Junction Holdings) both in the US and a long product rolling facility in Italy. It also has iron ore mines in Chile.

The company acquired Bhushan Power & Steel (BPSL) in March 2021 for with a stake of 49% in through the IBC process for Rs19,300 cr. The cash outgo for the company was Rs5100 cr. The current capacity at BPSL stands at 2.7 mtpa. The management has guided for sales of 2.6 mn tons in FY22 (100% utilization). It expects to increase the capacity at BPSL to 3.5 mtpa for a total capex of Rs750 cr. Management has also committed a capex of Rs850 cr towards cost saving programs which will help reduce costs by 15-20%. Out of the outstanding debt at BPSL of Rs10800 cr, the company has repaid Rs1800 cr in April 2021.

JSW Steel Limited

Financials (Consolidated)

Income Statement

Particulars	FY19	FY20	FY21	FY22E	FY23E
Income from operations	84757	73326	79839	110468	116552
Material Cost	43206	38730	32508	47170	49185
Employee Cost	2489	2839	2506	3535	3613
Other expenses	20110	12961	11727	14361	14802
Total expenses	65805	61453	59698	81636	85083
EBITDA	18952	11873	20141	31701	30868
Depreciation	4041	4246	4679	5378	5758
EBIT	15115	8173	16054	26985	25809
Other Income	204	546	592	663	699
Interest	3917	4265	3957	3811	3521
Profit before tax	11198	3103	12014	23174	22288
Tax Expenses	3644	-906	4142	6025	5795
Profit After Tax	7554	4009	7872	17149	16493
Adj. PAT	7524	3919	7873	17150	16494
EPS	31.1	16.2	32.7	71.2	68.4

Balance Sheet

Particulars	FY19	FY20	FY21	FY22E	FY23E
Share Capital	301	301	302	302	302
Reserves and Surplus	34494	36298	46462	61554	76069
Shareholders' Funds	34795	36599	46764	61856	76371
Minority Interest	-450	-575	-619	-619	-619
Long Term borrowings	29656	44673	49731	44731	37731
Deferred Tax Liabilities (Net)	3727	1415	3784	3784	3784
Other Long Term Liabilities	4753	5410	4781	6628	6993
Long Term Provisions	258	348	852	916	846
Non-current Liabilities	38394	51846	59148	56059	49354
Short Term Borrowings	6333	8325	1999	2524	3049
Trade Payables	16159	17918	15243	21186	20437
Other Current Liabilities	19186	17155	25227	25725	26504
Short Term Provisions	134	161	274	295	272
Current. Liabilities	41812	43559	42743	49730	50261
Total Liabilities	114551	131429	148036	167026	175367
Gross Block	76352	76056	81834	107564	133915
Less: Acc. Depreciation	14748	18298	22977	28355	34114
Net Block	61604	57758	58857	79209	99802
Intangible Assets	549	684	1782	1693	1608
Goodwill	840	415	336	336	336
Capital work-in-progress	11540	26857	32433	22703	11352
Noncurrent Investments	1812	1257	8573	8573	8573
Long-Term Loans and Advances	433	772	1022	1436	1515
Other Non-current Assets	4224	7123	9187	11194	11944
Non-current Assets	6469	9152	18782	21203	22032
Current Investments	82	2	8	8	8
Inventories	14548	13864	14249	19672	20756
Trade Receivables	7160	4505	4486	6356	6706
Cash and Bank Balances	6187	12003	12813	9793	6381
Short-Term Loans and Advances	561	742	622	908	958
Other Current Assets	5011	5447	3668	5145	5428
Current Assets	33549	36563	35846	41882	40237
Total Assets	114551	131429	148036	167026	175367

JSW Steel Limited

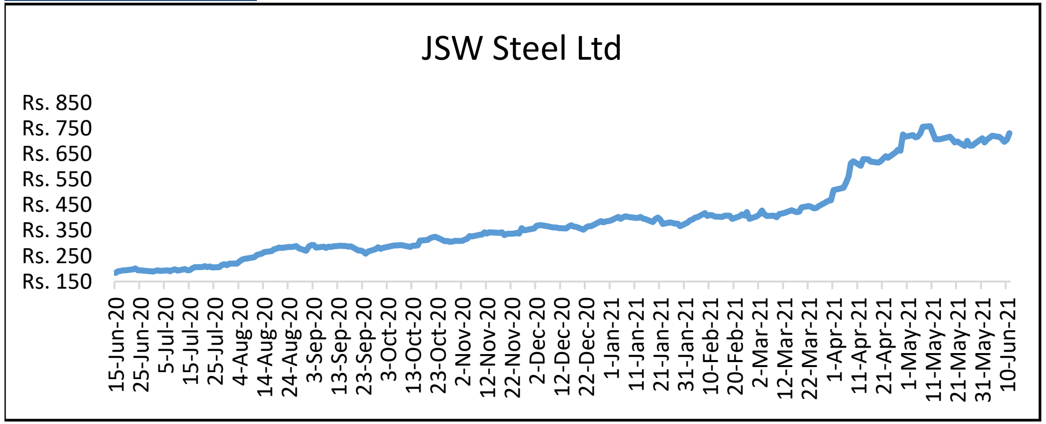
Cash Flow Analysis

Particulars	FY19	FY20	FY21	FY22E	FY23E
Profit Before Tax	11168	3013	12015	23174.3	22288
Depreciation	4041	4246	4679	5378.2	5758.4
Others	3635	5042	2761	3384.1	3198.9
Change in working capital	-1581	1639	1264	-2530.5	-1830.7
Tax expenses	-2630	-1155	-1930	-6025.3	-5794.9
CF from Operating activities	14633	12785	18789	23380.8	23619.7
Net Capex	-10206	-12810	-9258	-16000	-15000
Other investing activities	409	598	-4451	0	0
CF from Investing activities	-11448	-19586	-8119	-16000	-15000
Proceeds from Eq Cap	0	0	0	0	0
Borrowings / (Repayments)	6881	11647	2009	-4475	-6475
Dividends paid	-933	-1195	-483	-2058	-1979.3
Interest paid	-3815	-4520	-4340	-3810.9	-3521.4
CF from Financing activities	1753	5189	-3110	-10400.9	-12031.7
Net Cash Flow	4938	-1612	7560	-3020.1	-3412

Financial Ratios

Particulars	FY19	FY20	FY21	FY22E	FY23E
EPS (Rs)	31.1	16.2	32.7	71.2	68.4
Cash EPS (Rs)	47.8	33.8	52.1	93.5	92.3
BVPS (Rs)	144	151.4	194	256.7	316.9
PE (x)	23.5	45.1	22.4	10.3	10.7
P/BV (x)	5.1	4.8	3.8	2.8	2.3
Mcap/Sales (x)	2.1	2.4	2.2	1.6	1.5
EV/EBITDA (x)	10.9	18.3	10.7	6.8	6.8
EBITDAM (%)	22.4	16.2	25.2	28.7	26.5
EBITM (%)	17.8	11.1	20.1	24.4	22.1
PATM (%)	8.9	5.3	9.9	15.5	14.2
ROCE (%)	22.8	10.2	17.1	26	22.8
RONW (%)	24	11	18.9	31.6	23.9
Current Ratio (x)	0.8	0.8	0.8	0.8	0.8
Quick Ratio (x)	0.5	0.5	0.5	0.4	0.4
Debt-Equity (x)	1	1.4	1.1	0.8	0.5
Debtor days	26	29	21	18	20
Inventory days	58	71	64	56	63
Creditor days	69	85	76	60	65

One Year Price Chart



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