

October 24, 2019

## Q2FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	REDUCE		REDUCE	
Target Price	185		201	
Sales (Rs. m)	8,23,721	9,23,274	8,72,231	10,26,236
% Chng.	(5.6)	(10.0)		
EBITDA (Rs. m)	1,42,073	1,70,026	1,75,079	2,07,116
% Chng.	(18.9)	(17.9)		
EPS (Rs.)	25.5	18.7	29.3	31.7
% Chng.	(12.8)	(40.9)		

### Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	848	824	923	1,133
EBITDA (Rs. bn)	190	142	170	215
Margin (%)	22.4	17.2	18.4	19.0
PAT (Rs. bn)	76	62	45	66
EPS (Rs.)	31.6	25.5	18.7	27.1
Gr. (%)	30.5	(19.3)	(26.6)	44.7
DPS (Rs.)	4.1	4.0	4.0	4.0
Yield (%)	1.8	1.8	1.8	1.8
RoE (%)	24.3	16.4	10.8	14.2
RoCE (%)	20.0	11.6	11.9	14.9
EV/Sales (x)	1.1	1.2	1.1	0.9
EV/EBITDA (x)	5.0	7.0	6.1	4.6
PE (x)	7.0	8.7	11.9	8.2
P/BV (x)	1.5	1.3	1.2	1.1

### Key Data

JSTL.BO | JSTL IN

52-W High / Low	Rs.360 / Rs.202
Sensex / Nifty	39,059 / 11,604
Market Cap	Rs.538bn / \$ 7,586m
Shares Outstanding	2,417m
3M Avg. Daily Value	Rs.3884.51m

### Shareholding Pattern (%)

Promoter's	42.40
Foreign	17.89
Domestic Institution	3.78
Public & Others	35.93
Promoter Pledge (Rs bn)	123.09

### Stock Performance (%)

	1M	6M	12M
Absolute	(8.6)	(22.8)	(35.9)
Relative	(8.5)	(23.7)	(44.5)

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## Steep fall in margins with limited improvement in sight, Maintain Reduce

**JSW Steel (JSTL) kicked off Q2FY20 earning season in the metal space with disappointing set of numbers. Consolidated EBITDA came below ours/consensus expectations by 32%/20% due to steeper than expected fall in realisations of domestic operations and increase in losses of overseas operations. Sales volume fell 4% QoQ/9% YoY to 3.6mnt (PLe:3.7mnt). Due to weak demand, volumes in domestic market fell 24% YoY/19% QoQ to 2.5mnt. While, exports (31% of total vols) rose 77% QoQ/68% YoY to offset for weak domestic volumes. Realisations fell sharply by 10% QoQ or Rs4750 to Rs40,980 (PLe:Rs42,530)/t. Cost fell 4% QoQ to Rs35,345 (PLe:Rs35,045)/t. Hence, EBITDA/t fell 35% QoQ/47% YoY to Rs6,470 (PLe:Rs8,350).**

**Admittedly, spreads have bottomed-out. However, improvement in spreads would be subdued and would remain significantly below 3-year average levels in the backdrop of weak demand, high uncertainty (due to trade wars) and sizeable overcapacity (both in global and domestic). To factor in lower steel prices and reduced volumes, we cut our EBITDA estimates for JSTL by 19%/18% for FY20E/FY21E. We maintain Reduce rating due to stretched valuations, weak earnings and overhang of Bhushan Power and Steel (BPSL) acquisition. We cut our TP to Rs185 (earlier Rs201), EV/EBITDA of 6x FY21e.**

- Miss across the fronts:** Impacted by fall in prices and inventory write down, USA based Acero/Italy based Aferpi operations reported EBITDA losses higher than our estimate at USD32mn/USD8mn (PLe: Loss US\$18mn/US\$4mn). Hence, consolidated EBITDA came way below our estimate at Rs22.7bn (PLe:Rs33.2bn), down 39% QoQ (↓54% YoY). Impacted by weak operating performance, JSTL reported PBT fell 87% QoQ/92% YoY to Rs2.4bn (PLe:Rs12.9bn). Adjusted for one-time deferred tax gain of Rs22bn due to reduction in tax rates, PAT fell 97% QoQ/99% YoY to Rs268mn (PLe:Rs8.5bn).
- Key highlights of Con-call:**
  - 1) Spreads to improve QoQ on the back of lower input prices and bottomed-out steel prices
  - 2) Coking coal prices to fall by US\$25-30/t in Q3
  - 3) Reduced production/sales guidance for FY20e by 3% (earlier guided 17.0mnt/16.5mnt); H2 volume to remain flat YoY
  - 4) Demand is expected to grow 5% YoY in FY20e and should pick-up in H2 on account of measures announced by Govt
  - 5) Reduced capex guidance for FY20e by 30% to Rs110bn
  - 6) Captive iron ore mines would contribute 2.5mnt in H2FY20e against 2mnt in H1FY20, meeting 8-9% of requirement
  - 7) Negotiations of long term contracts with Auto/White goods customers would be settled at lower prices due to fall in prices
  - 8) Will remain under old tax regime till MAT credit is available
  - 9) **Update on acquisition of BPSL:** Contesting in NCLAT for immunity against claims arising from alleged money laundering frauds at BPSL. Hearing of case is scheduled for 25<sup>th</sup> October
  - 10) GST incentives expired on 5<sup>th</sup> August, 2019 for 3.3mtpa capacity at Dolvi
  - 11) Company recognized income of Rs4.7bn (for earlier period related to May-2016 to March-2019) from incentives as it received in-principal approval for GST incentives under PSI scheme 2007 on its 1.7mnt expansion at Dolvi unit, commissioned in May-2016
  - 12) Guided lower income from incentives at Rs3bn in FY20E against Rs11bn recognised in FY19.

**Exhibit 1: Q2FY20 Result Overview (Rs mn)**

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
<b>Net Sales</b>	<b>1,75,720</b>	<b>2,15,520</b>	<b>(18.5)</b>	<b>1,98,120</b>	<b>3,73,840</b>	<b>4,20,710</b>	<b>(11.1)</b>
Raw Material	94,050	1,08,950	(13.7)	1,03,370	1,97,420	2,10,920	(6.4)
<i>% of Net Sales</i>	<i>53.5</i>	<i>50.6</i>		<i>52.2</i>	<i>52.8</i>	<i>50.1</i>	
Purchase of traded goods	50	350		250	300	510	
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.2</i>		<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	
Staff Costs	6,530	5,860	11.4	7,590	14,120	11,210	26.0
<i>% of Net Sales</i>	<i>3.7</i>	<i>2.7</i>		<i>3.8</i>	<i>3.8</i>	<i>2.7</i>	
Power & Fuel	15,490	18,960	(18.3)	17,020	32,510	35,040	(7.2)
<i>% of Net Sales</i>	<i>8.8</i>	<i>8.8</i>		<i>8.6</i>	<i>8.7</i>	<i>8.3</i>	
Other Expenses	32,290	32,340	(0.2)	32,730	65,020	62,920	3.3
<i>% of Net Sales</i>	<i>18.4</i>	<i>15.0</i>		<i>16.5</i>	<i>17.4</i>	<i>15.0</i>	
Total Expenditure	1,48,410	1,66,460	(10.8)	1,60,960	3,09,370	3,20,600	(3.5)
<b>EBITDA</b>	<b>27,310</b>	<b>49,060</b>	<b>(44.3)</b>	<b>37,160</b>	<b>64,470</b>	<b>1,00,110</b>	<b>(35.6)</b>
<i>Margin (%)</i>	<i>15.5</i>	<i>22.8</i>		<i>18.8</i>	<i>17.2</i>	<i>23.8</i>	
Depreciation	10,570	9,740	8.5	10,260	20,830	18,790	10.9
Other income	1,560	560	178.6	1,410	2,970	1,140	160.5
<b>EBIT</b>	<b>18,300</b>	<b>39,880</b>	<b>(54.1)</b>	<b>28,310</b>	<b>46,610</b>	<b>82,460</b>	<b>(43.5)</b>
Interest	11,270	9,630	17.0	10,420	21,690	18,500	17.2
<b>PBT</b>	<b>7,030</b>	<b>30,250</b>	<b>(76.8)</b>	<b>17,890</b>	<b>24,920</b>	<b>63,960</b>	<b>(61.0)</b>
Extraordinary income/(expense)	-	-		-	-	-	
<b>PBT (After EO)</b>	<b>7,030</b>	<b>30,250</b>	<b>(76.8)</b>	<b>17,890</b>	<b>24,920</b>	<b>63,960</b>	<b>(61.0)</b>
Tax	(18,480)	9,360	(297.4)	7,620	(10,860)	19,890	(154.6)
<i>% PBT</i>	<i>-262.9</i>	<i>30.9</i>		<i>42.6</i>	<i>-43.6</i>	<i>31.1</i>	
<b>Reported PAT</b>	<b>25,510</b>	<b>20,890</b>	<b>22.1</b>	<b>10,270</b>	<b>35,780</b>	<b>44,070</b>	<b>(18.8)</b>
Minority interest	(240)	(390)	-	(200)	(440)	(660)	-
Share of profit/(losses) in Associates	(150)	(20)	-	(190)	(340)	190	-
<b>Net Profit attributable to shareholders</b>	<b>25,600</b>	<b>21,260</b>	<b>20.4</b>	<b>10,280</b>	<b>35,880</b>	<b>44,920</b>	<b>(20.1)</b>
<b>Adjusted PAT</b>	<b>25,600</b>	<b>21,260</b>	<b>20.4</b>	<b>10,280</b>	<b>35,880</b>	<b>44,920</b>	<b>(20.1)</b>

Source: Company, PL

**Exhibit 2: Key Operating Metrics**

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Crude steel production (000 tonnes)	3,840	4,180	(8.1)	4,240	8,080	8,290	(2.5)
Sales (000 Tonnes)	3,600	3,960	(9.1)	3,750	7,350	7,790	(5.6)
Realisation per tonne	40,978	48,298	(15.2)	46,251	43,668	48,255	(9.5)
EBITDA per tonne	7,767	12,101	(35.8)	10,219	9,018	12,341	(26.9)
Total cost per tonne	35,344	37,664	(6.2)	36,976	36,177	37,300	(3.0)

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>8,47,770</b>	<b>8,23,721</b>	<b>9,23,274</b>	<b>11,32,818</b>
YoY gr. (%)	17.8	(2.8)	12.1	22.7
Cost of Goods Sold	4,32,060	4,51,089	5,08,182	6,31,412
Gross Profit	4,15,710	3,72,631	4,15,092	5,01,407
Margin (%)	49.0	45.2	45.0	44.3
Employee Cost	24,890	20,356	20,808	22,364
Other Expenses	1,30,570	1,40,841	1,45,601	1,67,451
<b>EBITDA</b>	<b>1,89,720</b>	<b>1,42,073</b>	<b>1,70,026</b>	<b>2,15,209</b>
YoY gr. (%)	28.1	(25.1)	19.7	26.6
Margin (%)	22.4	17.2	18.4	19.0
Depreciation and Amortization	40,410	40,964	55,739	62,499
<b>EBIT</b>	<b>1,49,310</b>	<b>1,01,110</b>	<b>1,14,287</b>	<b>1,52,710</b>
Margin (%)	17.6	12.3	12.4	13.5
Net Interest	39,170	39,188	49,133	58,458
Other Income	1,840	1,801	1,951	2,116
<b>Profit Before Tax</b>	<b>1,11,980</b>	<b>68,383</b>	<b>67,105</b>	<b>96,368</b>
Margin (%)	13.2	8.3	7.3	8.5
Total Tax	36,440	2,353	22,117	31,144
Effective tax rate (%)	32.5	3.4	33.0	32.3
<b>Profit after tax</b>	<b>75,540</b>	<b>66,030</b>	<b>44,988</b>	<b>65,224</b>
Minority interest	(1,150)	(850)	(900)	(900)
Share Profit from Associate	(300)	(700)	(600)	(600)
<b>Adjusted PAT</b>	<b>76,390</b>	<b>61,680</b>	<b>45,288</b>	<b>65,524</b>
YoY gr. (%)	30.5	(19.3)	(26.6)	44.7
Margin (%)	9.0	7.5	4.9	5.8
Extra Ord. Income / (Exp)	-	4,500	-	-
<b>Reported PAT</b>	<b>76,390</b>	<b>66,180</b>	<b>45,288</b>	<b>65,524</b>
YoY gr. (%)	22.9	(13.4)	(31.6)	44.7
Margin (%)	9.0	8.0	4.9	5.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	76,390	66,180	45,288	65,524
<b>Equity Shares O/s (m)</b>	<b>2,417</b>	<b>2,417</b>	<b>2,417</b>	<b>2,417</b>
<b>EPS (Rs)</b>	<b>31.6</b>	<b>25.5</b>	<b>18.7</b>	<b>27.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>7,66,580</b>	<b>8,13,580</b>	<b>11,67,580</b>	<b>11,89,580</b>
Tangibles	7,66,580	8,13,580	11,67,580	11,89,580
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>1,48,540</b>	<b>1,89,504</b>	<b>2,45,243</b>	<b>3,07,742</b>
Tangibles	1,48,540	1,89,504	2,45,243	3,07,742
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>6,18,040</b>	<b>6,24,076</b>	<b>9,22,337</b>	<b>8,81,838</b>
Tangibles	6,18,040	6,24,076	9,22,337	8,81,838
Intangibles	-	-	-	-
Capital Work In Progress	1,39,450	2,07,500	4,555	54,405
Goodwill	8,400	8,400	8,400	8,400
Non-Current Investments	25,440	24,940	24,540	24,140
Net Deferred tax assets	(35,370)	(22,171)	(31,062)	(43,770)
Other Non-Current Assets	18,690	47,166	49,566	51,966
<b>Current Assets</b>				
Investments	820	820	820	820
Inventories	1,45,480	1,49,965	1,60,732	1,96,831
Trade receivables	71,600	61,739	62,041	76,096
Cash & Bank Balance	61,870	71,744	63,118	1,08,677
Other Current Assets	27,880	47,075	51,923	61,932
<b>Total Assets</b>	<b>11,49,140</b>	<b>12,75,895</b>	<b>13,81,502</b>	<b>14,99,575</b>
<b>Equity</b>				
Equity Share Capital	3,010	3,010	3,010	3,010
Other Equity	3,44,940	3,99,170	4,32,821	4,86,708
<b>Total Networkth</b>	<b>3,47,950</b>	<b>4,02,180</b>	<b>4,35,831</b>	<b>4,89,718</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	4,73,960	5,23,960	5,63,960	5,63,960
Provisions	2,580	2,580	2,580	2,580
Other non current liabilities	42,210	42,210	42,210	42,210
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,61,590	1,96,480	2,17,078	2,64,360
Other current liabilities	81,090	81,574	83,741	87,636
<b>Total Equity &amp; Liabilities</b>	<b>11,49,140</b>	<b>12,75,895</b>	<b>13,81,502</b>	<b>14,99,575</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	1,11,680	68,383	67,105	96,368
Add. Depreciation	40,410	40,964	55,739	62,499
Add. Interest	35,820	39,188	49,133	58,458
Less Financial Other Income	1,840	1,801	1,951	2,116
Add. Other	530	(1,501)	(1,651)	(1,816)
Op. profit before WC changes	1,88,440	1,47,033	1,70,326	2,15,509
Net Changes-WC	(15,810)	(6,920)	4,447	(11,385)
Direct tax	(26,300)	(15,552)	(13,226)	(18,437)
<b>Net cash from Op. activities</b>	<b>1,46,330</b>	<b>1,24,561</b>	<b>1,61,547</b>	<b>1,85,688</b>
Capital expenditures	(1,15,890)	(1,15,050)	(1,51,055)	(71,850)
Interest / Dividend Income	1,580	1,501	1,651	1,816
Others	(170)	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(1,14,480)</b>	<b>(1,13,549)</b>	<b>(1,49,404)</b>	<b>(70,034)</b>
Issue of share cap. / premium	(1,530)	-	-	-
Debt changes	66,540	50,000	40,000	-
Dividend paid	(9,330)	(11,950)	(11,636)	(11,636)
Interest paid	(38,150)	(39,188)	(49,133)	(58,458)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>17,530</b>	<b>(1,138)</b>	<b>(20,769)</b>	<b>(70,094)</b>
<b>Net change in cash</b>	<b>49,380</b>	<b>9,874</b>	<b>(8,626)</b>	<b>45,560</b>
Free Cash Flow	44,710	9,511	10,492	1,13,838

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
<b>Net Revenue</b>	<b>2,03,180</b>	<b>2,23,680</b>	<b>1,98,120</b>	<b>1,71,060</b>
YoY gr. (%)	11.2	6.6	(3.4)	(20.6)
Raw Material Expenses	1,00,940	1,20,760	1,03,620	94,100
Gross Profit	1,02,240	1,02,920	94,500	76,960
Margin (%)	50.3	46.0	47.7	45.0
<b>EBITDA</b>	<b>45,010</b>	<b>44,400</b>	<b>37,160</b>	<b>22,650</b>
YoY gr. (%)	16.9	(9.9)	(27.2)	(53.8)
Margin (%)	22.2	19.8	18.8	13.2
Depreciation / Depletion	10,780	10,840	10,260	10,570
<b>EBIT</b>	<b>34,230</b>	<b>33,560</b>	<b>26,900</b>	<b>12,080</b>
Margin (%)	16.8	15.0	13.6	7.1
Net Interest	10,210	10,460	10,420	11,270
Other Income	370	530	1,410	1,560
<b>Profit before Tax</b>	<b>24,390</b>	<b>23,630</b>	<b>17,890</b>	<b>7,030</b>
Margin (%)	12.0	10.6	9.0	4.1
Total Tax	8,200	8,350	7,620	(18,480)
Effective tax rate (%)	33.6	35.3	42.6	(262.9)
<b>Profit after Tax</b>	<b>16,190</b>	<b>15,280</b>	<b>10,270</b>	<b>25,510</b>
Minority interest	(210)	(280)	(200)	(240)
Share Profit from Associates	(160)	(330)	(190)	(150)
<b>Adjusted PAT</b>	<b>16,240</b>	<b>15,230</b>	<b>10,280</b>	<b>12,466</b>
YoY gr. (%)	20.0	(30.5)	(56.6)	(41.4)
Margin (%)	8.0	6.8	5.2	7.3
Extra Ord. Income / (Exp)	-	-	-	13,134
<b>Reported PAT</b>	<b>16,240</b>	<b>15,230</b>	<b>10,280</b>	<b>25,600</b>
YoY gr. (%)	(7.4)	(49.2)	(56.6)	20.4
Margin (%)	8.0	6.8	5.2	15.0
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>16,240</b>	<b>15,230</b>	<b>10,280</b>	<b>25,600</b>
Avg. Shares O/s (m)	2,417	2,417	2,417	2,417
<b>EPS (Rs)</b>	<b>6.7</b>	<b>6.3</b>	<b>4.3</b>	<b>5.2</b>

Source: Company Data, PL Research

**Key Financial Metrics**

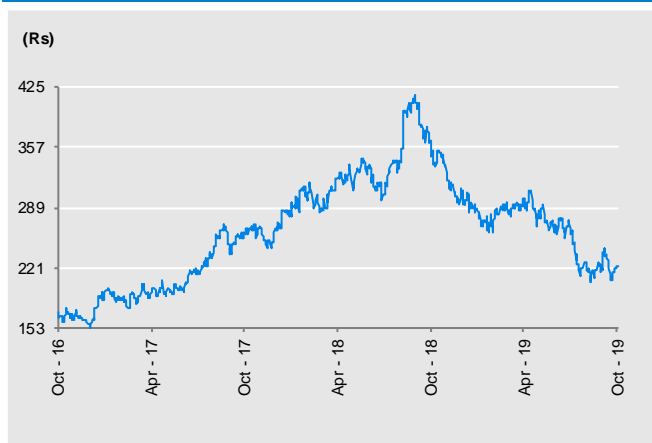
Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	31.6	25.5	18.7	27.1
CEPS	48.3	42.5	41.8	53.0
BVPS	143.9	166.4	180.3	202.6
FCF	18.5	3.9	4.3	47.1
DPS	4.1	4.0	4.0	4.0
<b>Return Ratio(%)</b>				
RoCE	20.0	11.6	11.9	14.9
ROIC	14.7	12.2	8.5	11.3
RoE	24.3	16.4	10.8	14.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	1.2	1.1	1.1	0.9
Net Working Capital (Days)	24	7	2	3
<b>Valuation(x)</b>				
PER	7.0	8.7	11.9	8.2
P/B	1.5	1.3	1.2	1.1
P/CEPS	48.3	42.5	41.8	53.0
EV/EBITDA	5.0	7.0	6.1	4.6
EV/Sales	1.1	1.2	1.1	0.9
Dividend Yield (%)	1.8	1.8	1.8	1.8

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY19	FY20E	FY21E	FY22E
Crude Steel Prod.	17	16	18	22
Rolled Products Prod.	16	15	17	21
Sales Vol. (mt)	16	16	17	22
Realisation / tonne (Rs)	47,455	44,000	44,334	44,205
EBITDA / tonne (Rs)	11,680	8,792	8,993	9,224
Cost / tonne of iron ore (Rs)	3,487	3,700	3,700	3,700
Cost / tonne of coking coal (Rs)	15,264	13,442	13,575	13,674

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Oct-19	Reduce	201	222
2	26-Jul-19	Reduce	250	250
3	04-Jul-19	Reduce	360	275
4	26-May-19	Accumulate	300	284
5	05-Apr-19	BUY	364	294
6	06-Feb-19	BUY	360	279
7	07-Jan-19	BUY	360	290
8	25-Oct-18	BUY	450	353

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	Accumulate	1,650	1,498
2	Ambuja Cement	Hold	207	208
3	Coal India	Accumulate	230	187
4	Heidelberg Cement India	Accumulate	220	185
5	Hindalco Industries	Accumulate	207	183
6	Hindustan Zinc	Hold	225	209
7	Jindal Steel & Power	Accumulate	125	96
8	JK Lakshmi Cement	Accumulate	380	301
9	JSW Steel	Reduce	201	222
10	NMDC	Reduce	90	97
11	Shree Cement	Reduce	18,500	18,260
12	Steel Authority of India	Reduce	32	31
13	Tata Steel	Reduce	355	340
14	The Ramco Cements	Hold	750	719
15	Ultratech Cement	BUY	5,125	4,147

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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