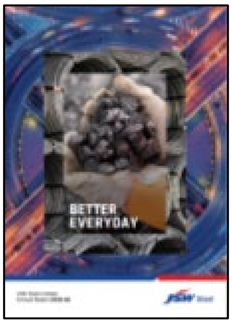
18 July 2020

Annual Report Update | Sector: Metals

JSW Steel

BSE SENSEX	S&P CNX
37,020	10,902



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CMP: INR207 TP: INR242 (+17%) Buy

Focused on navigating choppy waters

Higher exports and cash conservation to help tide over weak demand

- **JSW Steel (JSTL)'s FY20 Annual Report highlights the company's strategy to combat the fallout of COVID-19. JSTL plans to ramp-up exports to 30% of sales (v/s 21% in FY20 and 16% in FY19) to compensate for weak demand in the domestic market.**
- **Even in FY20, domestic volumes fell 10.7% YoY, which was partly compensated through higher exports, with overall sales volumes declining 4% YoY.**
- **JSTL is planning targeted cost savings, supported by technology and digitalization, to reduce the cost base across areas of operation. Employee costs have already been cut, with FY21 likely to see flat manpower costs despite the new capacity at Dolvi.**
- **Capex has also been curtailed, with FY21 planned at INR90b v/s INR102b in FY20. Planned capex of INR487b over FY18–22 is, however, only halfway through and likely to spill over to FY23 and beyond. This is attributed to the company's current focus being on conserving cash.**
- **Leverage has risen further in FY20 to 5.7x net debt/ EBITDA with an INR64b YoY increase witnessed in net debt to INR629b (USD8.4b), a key concern. We estimate net debt to rise further to INR676b in FY22 on weak profitability and capex plans.**
- **However, the debt maturity profile is comfortable, with 63% of long-term debt due for repayment after FY22. While INR139b of long-term debt (23% of the total) is due for repayment in FY21, we believe it should be comfortably managed with refinancing as well as cash and cash equivalents in hand of INR120b as of Mar'20.**
- **Consolidated RoE and ROCE fell sharply in FY20 to 6.1% (-18.3pp) and 4.5% (-6.5pp), respectively, weighed by weak domestic demand and significant losses in overseas subsidiaries. These would be subdued even in FY21 due to the COVID-19 impact.**
- **We expect consolidated Revenue/ EBITDA/ PAT at INR672b/ 112b/ 20b, -7%/+1%/-9% YoY respectively. However, with an expectation of better demand in FY22 and commissioning of the 5mtpa Dolvi expansion, we expect Revenue/ EBITDA/ PAT to improve substantially by 30%/ 59%/ 165% YoY to INR875b/ 178b/ 52b respectively.**

Higher exports to combat weak domestic demand, but dilute margins

- In FY20, JSTL ramped-up exports by 33% YoY to 3.2mt amid 10.7% YoY decline in domestic volumes (due to weak demand from auto and other flat steel consumers). Share of exports rose to 21% of sales (v/s ~16% in FY19).
- JSTL expects share of exports to rise further to ~30% in FY21 as domestic demand is likely to be weak due to the disruption caused by COVID-19.
- Higher exports would, however, result in a weaker blended per ton realization and EBITDA margin in FY21. We estimate EBITDA to decline 3% YoY in FY21.

Capex curtailed as focus on cash conservation

- JSTL's announced capex plans of INR487b over FY18–22 are just halfway through in FY20, with capex of INR239b spent thus far.
- Amid uncertainties arising from COVID-19, JSTL is focusing on cash conservation and has thus recalibrated its capex plans to prioritize return-accretive projects. FY21 capex has thus been curtailed to INR90b v/s the earlier planned spend of INR163b.
- The total capex plan of INR487b is thus likely to spill over to FY23 and beyond.

Stock Info

Bloomberg	JSTL IN
Equity Shares (m)	2,417
M.Cap.(INRb)/(USDb)	499.8 / 6.5
52-Week Range (INR)	297 / 133
1, 6, 12 Rel. Per (%)	-3/-13/-18
12M Avg Val (INR M)	2128
Free float (%)	57.3

Financials Snapshot (INR b)

Y/E Mar	2020	2021E	2022E
Sales	726.1	672.1	875.1
EBITDA	111.6	112.1	178.2
NP	21.7	19.7	52.2
AdjEPS (INR)	9.0	8.2	21.8
EPS Gr. (%)	-71.6	-9.2	165.2
BV/Sh. (INR)	152.5	158.6	178.3
RoE (%)	6.1	5.3	12.9
RoCE (%)	4.5	4.1	7.3
Payout (%)	28.9	29.1	10.9
Valuation			
P/E (x)	22.9	25.2	9.5
P/BV (x)	1.4	1.3	1.2
EV/EBITDA (x)	10.2	10.4	6.6
Div. Yield (%)	2.0	1.0	1.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	42.7	42.3	42.7
DII	4.9	4.6	3.4
FII	17.7	18.3	19.2
Others	34.7	34.8	34.7

FII Includes depository receipts

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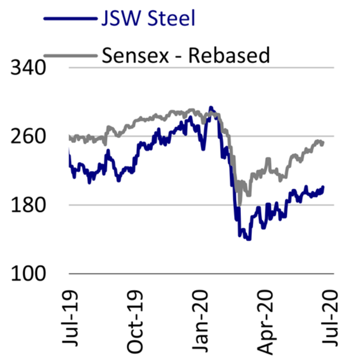
Stock Performance (1-year)



Net debt increases by INR64b in FY20; net debt / EBITDA rises to 5.7x

- Net debt (including acceptances) increased by INR64b YoY to INR639b in FY20 on weak domestic margins, significant losses in subsidiaries, and a higher capex spend. However, gross debt surged by INR121b to INR759b as JSTL increased liquidity in hand due to uncertainty in cash flows stemming from COVID-19.
- Net debt / EBITDA rose to 5.7x in FY20 (from 3.0x in FY19) and would remain elevated at 5.9x in FY21, weighed by the expectation of weak profitability.
- JSTL is exposed to currency risk on its debt, with 48% of debt being USD-denominated, 47% INR, and the balance 5% other currencies.
- Average cost of debt stood at 6.7% in FY20, but MTM loss on forex debt (at INR24b) implies additional cost of 3.3%, taking the total cost to 10%.
- In FY21, debt of INR139b (USD1.8b) is lined up for repayment. However, we expect it to be managed comfortably through refinancing and JSTL's strong cash and cash equivalents position of INR120b.
- The debt maturity profile (excl. working capital borrowings) is forecast as follows: FY21 – 23% (INR139b), FY22 – 14% (INR88b), FY23 – 21% (INR127b), and post-FY23 – 43% (INR263b).

EBITDA to OCF conversion improves, but FCF remains negative

- JSTL's FY20 operating cash flow (OCF) declined by INR18.5b YoY to INR128b, dragged down by weaker EBITDA of INR112b (down 41% YoY). This was partly offset by the release of working capital of INR16b (v/s an increase of INR16b in FY19) and lower income tax payments.
- The cash conversion ratio (OCF post working capital / EBITDA) improved to 1.2x (v/s 0.9x in FY19), driven by working capital release in FY20.
- While OCF was weaker, cash capex came in higher at INR128b in FY20 (up INR26b YoY), resulting in negative free cash flow (FCF) of INR41.1b (post interest payments and acquisition spends) v/s negative INR6.6b in FY19.

Overseas subsidiaries continue to incur losses, require parent support

- JSTL's overseas subsidiaries widened their losses in FY20. Key overseas subsidiaries – JSW (USA) Inc, JSW (USA) Ohio Inc, and JSW Italy Plombino S.p.A – reported combined EBITDA loss of INR12.4b v/s loss of INR2.8b in FY19.
- JSTL extended loans of ~INR12.0b to Periama Holdings, LLC – holding company of JSW (USA) Inc and West Virginia coal operations – in FY20, taking the total receivables from the same to INR61.3b.
- JSTL is implementing measures to turnaround its overseas operations. In the US, the integration of Ohio and Baytown (Plate Mill) operations is planned to derive synergies. The Plate Mill at Baytown is also being modernized, which is likely to provide cost savings in FY21.

Other key points from Annual Report

- **Bhushan Power acquisition further delayed due to legal issues:** The erstwhile promoters of Bhushan Power and Steel (BPSL) and certain operational creditors have filed an Appeal before the Supreme Court against the NCLAT order declaring JSTL the winner of the bid process to acquire BPSL. If JSTL is upheld as the winner, this would result in a further increase in debt by at least INR30b.

This calculation is based on the INR197b deal value, 70% debt funding, and JSTL taking 51% stake in the asset, with the balance being sold to strategic investors.

- **24km pipe conveyor operationalized at Vijayanagar:** JSTL operationalized a 24km pipe conveyor with a capacity of 10mtpa in FY20 (likely to be enhanced to 20mtpa). Furthermore, it transported ~3.4mt of iron ore during the year, generating savings of INR560m (INR165/t of iron ore); the full potential of these developments is likely to be achieved in FY21.
- **Captive iron ore production adding to fixed cost:** JSTL mined 4.1mt of iron ore from its captive mines in Karnataka. It paid statutory dues (premium and royalty) of INR6.5b on the same in FY20, implying cost of INR1,588/t. Production in Karnataka is guided to rise to 7mt in FY21.
- **Shift to new tax regime unlikely in near future:** In its standalone operations, JSTL has minimum alternate tax (MAT) credit entitlement of INR42b, which it expects to utilize over the next six years. The company thus does not plan to shift to the new tax regime of 25% over this period as it would have to forego the MAT credit.
- In FY20, employee cost rose by 6% YoY to INR15.0b on a 4% increase in employee count to 13,159 and 4% in per employee cost, partly offset by 34% decline in managerial remuneration to INR570m.

Valuation and view

- We like JSTL given its strong pipeline of projects and cost reduction initiatives. On the domestic front, while on the one hand, it should deliver above-industry volume growth in FY22, driven by expansion, margins should also improve, aided by a better product mix. Any turnaround in its loss-making overseas operations could provide a further upside.
- In the near term, we expect JSTL to tide over the disruption caused by COVID-19, supported by higher exports, cost reductions, and capex curtailment. Although net debt is expected to rise to INR676b in FY22E (from INR639b in FY20), we expect it to decline subsequently as the capex phase ends and invested projects start to generate cash flows. We value JSTL at 7.0x FY22E EV/EBITDA to arrive at TP of INR242/share. Maintain **Buy**.

Exhibit 1: Target price calculation

Y/E March	2020	2021E	2022E
A. S/A volumes	15.1	14.4	18.0
B. EBITDA per ton	7,824	7,949	9,441
C. S/A EBITDA (AxB)	1,17,990	1,14,478	1,69,946
D. Sub. EBITDA	-6,420	-2,328	8,300
E. Cons. EBITDA (C+D)	1,11,570	1,12,150	1,78,246
F. Target EV/EBITDA (x)			7.0
G. Target EV (FxG)			**12,47,720**
less: Net Debt (Rs m)	6,39,300	6,64,609	6,76,029
Add: Non-current investments (at Book value)			9,740
Equity value			**5,81,430**
No. of shares			2,400
Equity value /sh.			**242**

Source: MOFSL

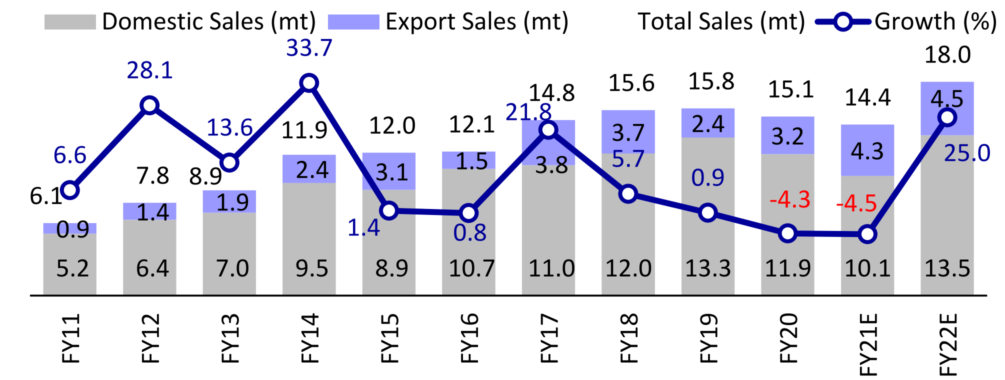
Higher exports to support volumes, but dilute margins

Share of exports rises in FY20; should grow further in FY21

In FY20, JSTL's standalone sales volumes declined 4% YoY to 15.1mt. Domestic sales fell 10.7% YoY to 11.9mt, primarily due to demand contraction for flat steel (led by slowdown in auto demand). As a result, JSTL's share of domestic volumes decreased to 11.9% from 13.5% in FY19. Weak domestic demand for flats resulted in JSTL growing its exports to 3.2mt (up 33% YoY). Exports contributed ~21% to volumes in FY20 (v/s 16% in FY19); JSTL has the flexibility to export in times of weak domestic demand, backed by the strategic location of its Dolvi plant.

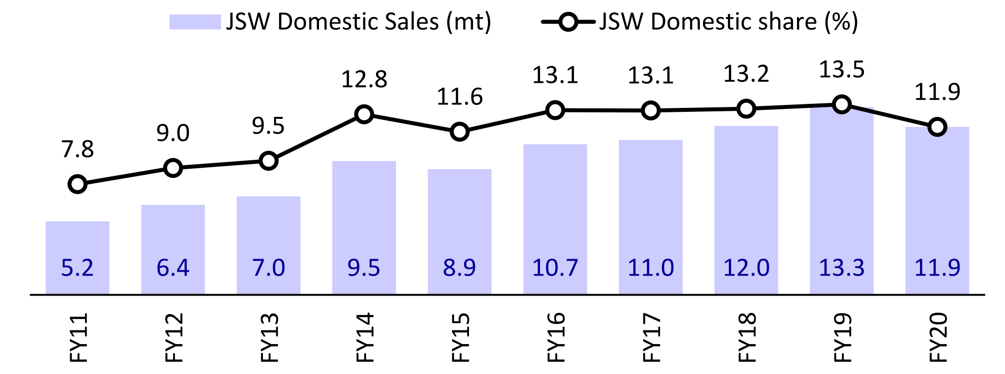
We expect the share of exports to rise to ~30% in FY21 as domestic demand is likely to be even weaker during the year, resulting in ~5% YoY decline in total sales volumes. However, we expect volume growth to be strong at 25% YoY in FY22, driven by increased capacity post the Dolvi expansion in 4QFY21.

Exhibit 2: Domestic volumes decline in FY20 on weak demand



Source: Company, MOFSL

Exhibit 3: JSTL's share in domestic steel consumption declines to 11.9% in FY20

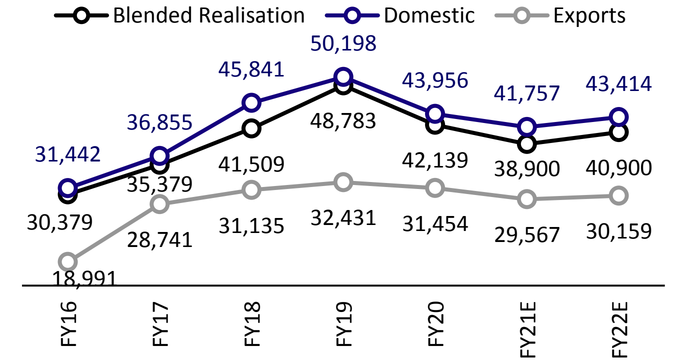


Source: Company, MOFSL

Lower prices result in 33% decline in EBITDA/t in FY20

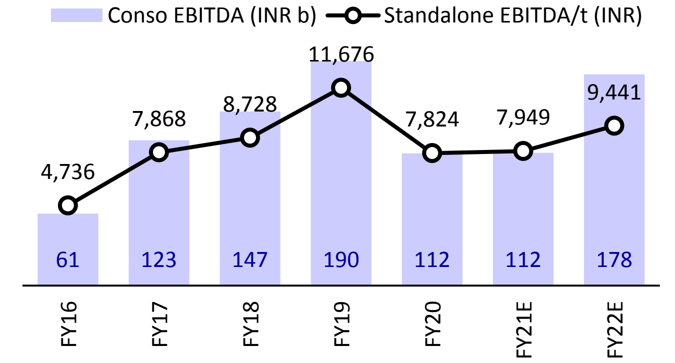
In FY20, realization declined 14% YoY to INR42,139/t on weak pricing in the domestic market and a higher share of exports. As a result, EBITDA/t was down 33% YoY to INR7,824/t. We expect 8% YoY decline in blended realization in FY21 on the expectation of lower domestic prices and an increase in the share of exports to 30% (from 21% in FY20). However, cost benefits from lower iron ore / coking coal prices and cost reduction measures should result in nearly flat YoY EBITDA/t in FY21 (32% lower than FY19).

Exhibit 4: Export realization at sharp discount to domestic



Source: Company, MOFSL

Exhibit 5: Standalone EBITDA/t declines 33% in FY20



Source: Company, MOFSL

Employee cost to be flat led by sharp decline in managerial remuneration

JSTL is planning targeted cost savings, supported by technology and digitalization, to reduce the cost base across areas of operation. Employee costs have already been cut, with FY21 likely to see flat manpower costs despite the new capacity at Dolvi. FY20 has already seen remuneration for managerial personnel being cut by 36% due to decline in profit-linked commissions payable to them.

Exhibit 6: Managerial remuneration declines 36% YoY, staff cost likely to be controlled in FY21

INR m	FY17	FY18	FY19	FY20
No. of permanent employees at end	11848	11619	12599	13159
Staff cost	11,676	12,600	14,160	14,960
Managerial remuneration	340	926	870	570
Staff cost excl. managerial remumeration	11,336	11,674	13,290	14,390
Staff cost per employee	0.96	1.00	1.05	1.09

Source: Company, MOFSL

Captive mining to increase in FY21, merchant iron ore sourcing to reduce

JSTL produced 4.1mt of iron from its captive mines in Karnataka, which contributed ~20% to the iron ore requirement in FY20. With three more mines in Karnataka being operationalized in FY21, the company expects to produce 7.0mt iron from the Karnataka mines.

JSTL won four mines in Odisha iron ore auctions in FY20; the company has iron ore reserves of 1.16b tonnes and environmental clearance to produce 29mt. The said mines were won at a premium of 106%. JSTL commenced mining operations from 1st Jul'20. Average production for FY19 and FY20 from these mines stood at 21.65mt. The company would have to produce ~80% of the last two years' average production in FY21/FY22 to comply with the conditions of the auction.

While it may be uneconomical for JSTL to use Odisha ore in Karnataka due to the higher freight cost involved, it would look to replace the merchant ore procured at JSTL Dolvi with captive ore. Dolvi procured 3.4mt of high-grade ore from Chhattisgarh in FY20 for pellet making. JSTL may have to sell a part of its production in Odisha on the merchant market to comply with auction conditions.

Moreover, with the premium being high at 106% of Indian Bureau of Mining (IBM) prices, we believe captive mines are likely to result in iron ore cost of INR300–400/t (mining cost) until the time that JSTL sets up evacuation facilities in the form of slurry pipelines or conveyors, thereby reducing freight cost.

Exhibit 7: JSTL wins iron ore mines with 1.16b tonne reserves at 106% premium; has EC to produce 29.3mt

Name of the block	Resources in MnT	EC Capacity MnT	Production in 2018-19 MnT	Reservation	Premium
Nuagaon	793	5.6	5.6	Merchant	95%
Narayanposhi	191	6.0	3.0	Captive	99%
Ganua	119	1.2	0.3	Captive	132%
Jajang	59	16.5	11.7	Merchant	110%
Total	**1,161**	**29.3**	**20.6**		**106%**

Source: Steelmint, MOFSL

Capex curtailed as focus on cash conservation

Capex calibrated to prioritize return-accretive projects in FY21

JSTL currently implenting an announced mega capex plan of INR487b in FY18–22. Of this, over FY18-20, INR239b (49%) has already been spent. Upstream projects include capacity expansion at Dolvi by 5mtpa to 10mtpa (including a captive power plant and coke oven plant) and at Vijaynagar by 1mtpa to 13mtpa. Downstream projects focus is on product or mix enhancement.

Due to the weak outlook for operating profits in FY21 on account of COVID-19, JSTL has recalibrated capex for FY21 to INR90b (vs earlier plan of INR163b) by prioritizing capex that is return-accretive and nearing completion. It plans to spend INR82b on enahncing steel capacities and INR8b on operationalizing seven new iron ore mines won in auctions (three in Karnataka and four in Odisha). As a result, the balance capex of INR158b at FY21-end (out of the total program of INR487b) is now expected to spillover beyond FY22.

In FY21, JSTL plans to commission the following projects:
1) Dolvi – 5mtpa expansion by 4QFY21,
2) Vijayanagar – 8mtpa pellet plant and wire rod mill by 3QFY21, and
3) Downstream modernization and capacity enhancement projects at Vasind and Tarapur, and the color coating plant at Kalmeshwar in 2HFY21.

Exhibit 8: JSTL's capex program outlay

Capex plan	INR b
A. Announced Capex plan over FY18-22	487.2
B. Capex spent till FY19	137.3
C. Capex spend in FY20	102.0
D. Capex spent till FY20 (B+C)	**239.3**
E. Capex plan for FY21	90.0
F. Capex to be spent over FY22-FY23 (A-D-E)	**157.9**

Source: Company

Exhibit 9: Ongoing project pipeline

Ongoing Projects	Capacity (mtpa)	Time-line	Capex (INR b)
A. Up-Stream Projects			
Vijaynagar expansion from 12mtpa to 13mtpa		**Not defined**	**23.0**
BF Upgradation from 3 to 4.5mtpa	1.5		
Billet Caster	1.4		
Wire-rod Mill	1.2		
Dolvi - Capacity expansion from 5mtpa to 10mtpa		**FY21 end**	**150.0**
Blast furnace	4.5		
Steel Melting Shop	5.0		
Hot Strip Mill	5.0		
Pellet Plant	5.0		
4 x 600 TPDs of LCPs			
B. Product mix enhancement projects			
Vijaynagar - CRM complex expansion from 0.85 to 1.85mtpa			**20.0**
Continuous pickling line for auto (HRPO products)	1.2	1QFY20	
Construction grade galvanized products	0.9	3QFY21	
Color coated products	0.3	2HFY21	
Vasind/Tarapur			**17.3**
GI/GL capacity	0.9	2HFY21	
Color coated capacity	0.3	2HFY21	
Ner Capacity or modernisation-cum-capacity			
Color coating line at Vijaynagar	0.30	not defined	9.4
Pre-Painted Galvalume line at Kalmeshwar	0.22	2HFY21	
Tinplate capacity at Tarapur	0.25	not defined	
Continuous annealing line in Vasind	0.50	not defined	7.0
Color coated line at Rajpura	0.25	not defined	2.0
C. Cost reduction and integration projects			
Vijaynagar			
Pellet plant	8.0	2HFY21	52.0
Coke oven	1.5	2HFY21	
Dolvi			
coke oven	1.5	2HFY21	20.5
Power plant (WHRS)	175	2HFY21	9.8
Captive Power plant	60	2HFY21	

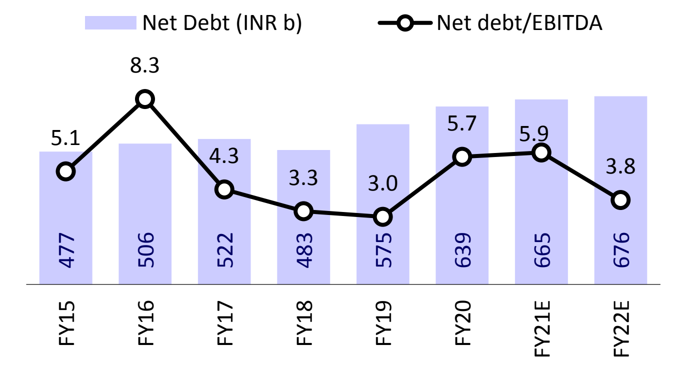
Source: Company

Leverage to stay elevated in the near term

Net debt increases by INR64b in FY20; net debt / EBITDA rises to 5.7x

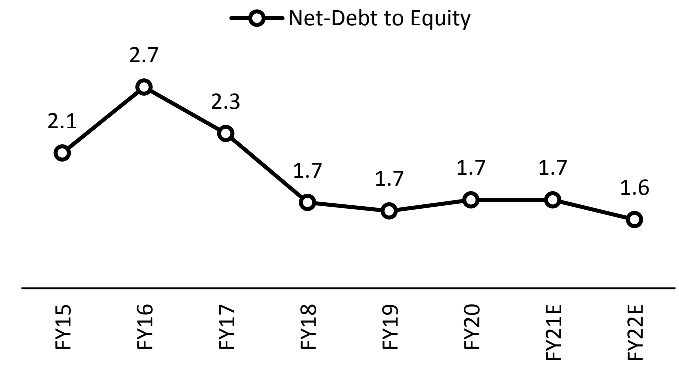
- Net debt (including acceptances) increased by INR64b YoY to INR639b (USD8.5b) in FY20 on weak domestic margins, significant losses in subsidiaries, and higher capex spend. Gross debt surged even more by INR121b to INR759b (USD10.1b) as JSTL increased liquidity in hand due to the uncertainty surrounding cash flows stemming from COVID-19.
- The outstanding balance of the advance received from Duferco stands at INR40.0b at FY20-end. This advance, along with interest charged on the same, will be settled through the sale of steel over the next four years.
- Net debt / EBITDA rose to 5.7x in FY20 (from 3.0x in FY19) and should remain elevated at 5.9x in FY21, due to likely weak cash flow generation in FY21.
- Net debt/ EBITDA is expected to decline to 3.8x in FY22 as JSTL overcomes the adverse impact of COVID-19 on margins and new capacities gets commissioned.
- If JSTL is upheld as the winner of Bhushan Power and Steel (BPSL), this would result in a further increase in debt by at least INR30b or ~5%. This calculation is based on the INR197b deal value, 70% debt funding, and JSTL taking 51% stake in the asset, with the balance being sold to strategic investors.
- JSTL is exposed to currency risks on its debt, with 48% of debt being USD-denominated, 47% INR, and the balance 5% other currencies.
- Average cost of debt stood at 6.7% in FY20, but MTM loss on forex debt (at INR24b) implies an additional cost of 3.3%, taking the total cost to 10%.

Exhibit 10: Leverage to remain elevated in FY21



Source: Company, MOFSL

Exhibit 11: Net debt to equity is however stable



Source: Company, MOFSL

Exhibit 12: FY20 consolidated net debt increases by INR64b, but higher liquidity in hand raises gross debt by INR121b

INR m	FY17	FY18	FY19	FY20
Bonds	32,420	65,040	69,180	1,05,540
Debentures	63,510	47,040	41,410	53,000
Term Loan (Unsecured)	88,010	80,450	1,26,950	1,71,370
Term Loan (Secured)	1,74,980	1,57,200	1,52,340	1,63,230
Deferred government loans (unsecured)	1,030	990	1,210	1,670
Preference Shares (unsecured)	7,350	5,910	2,510	240
Acceptances for Capital Projects	1,690	5,040	0	19,060
Finance lease obligations	19,810	17,810	19,570	0
Unamortised fees on upfront borrowings	-2,580	-2,270	-2,540	-3,630
Advances from Duferco (incl. current year portion)			48,420	40,540
A. Long-term borrowings	**3,86,220**	**3,77,210**	**4,59,050**	**5,51,020**
Short-term borrowings	48,810	21,770	63,330	83,250
Capital acceptances (maturing in 1 year)	10,150	7,160	13,320	27,100
Trade payables Acceptances	95,020	90,330	1,02,280	97,980
B. Short-term borrowings	**1,53,980**	**1,19,260**	**1,78,930**	**2,08,330**
C. Gross Debt (A+B)	**5,40,200**	**4,96,470**	**6,37,980**	**7,59,350**
D. Cash and Cash Equivalents	**17,850**	**13,750**	**62,690**	**1,20,050**
E. Net-Debt (C-D)	**5,22,350**	**4,82,720**	**5,75,290**	**6,39,300**
Change		**-39,630**	**92,570**	**64,010**

Source: Company

Exhibit 13: Consolidated currency exposure of asset/ liability item; Currency breakup of debt of INR530b – INR 47%, USD 48%, Euro 3%, JPY 1%

INR m	INR	USD	EURO	JPY	Other	Total
Financial assets						
Investments	9,170	-	140	-	450	9,760
Loans	15,140	-	-	-	-	15,140
Trade receivables	30,310	8,020	6,720	-	-	45,050
Cash and cash equivalents	38,350	690	620	-	-	39,660
Bank balances other than cash and Cash Equivalent	79,820	540	-	-	10	80,370
Derivative assets	190	2,750	-	-	-	2,940
Other financial assets	34,810	280	430	-	20	35,540
Total financial assets	**2,07,790**	**12,280**	**7,910**	**-**	**480**	**2,28,460**
Financial liabilities						
Borrowings	**2,49,400**	**2,56,820**	**18,430**	**5,330**	**-**	**5,29,980**
Trade payables	56,530	1,05,420	16,270	310	650	1,79,180
Derivative liabilities	610	3,190	-	-	10	3,810
Lease liabilities	19,640	330	530	-	-	20,500
Other financial liabilities	71,760	48,150	21,510	2,340	2,310	1,46,070
Total financial liabilities	**3,97,940**	**4,13,910**	**56,740**	**7,980**	**2,970**	**8,79,540**

Source: Company

Exhibit 14: JSTL's blended cost of debt stands at 6.7%

Type of debt	INR m	Cost p.a.
Bonds	1,05,540	5.5%
Debentures	53,000	9.3%
Term loans from banks (Unsecured)	1,71,380	4.1%
Term loans from banks (Secured)	1,63,230	8.4%
Working capital loans	44,420	8.5%
Commerical Papers	38,830	8.5%
	5,76,400	**6.7%**

Source: Company

Repayment schedule manageable; 63% of debt due post FY22

- Of the total long-term debts, INR139b debt is due for repayment in FY21. Of this, the INR10b advance from Duferco would be settled through the sale of steel. The balance portion of INR129b is well-covered, with a cash balance of INR120b reported at FY20-end. However, owing to planned capex of INR90b in FY21, we expect JSTL to refinance a part of its debt obligation.

- The debt maturity profile (excl. working capital borrowings) is forecast as follows: FY21 – 23% (INR139b), FY22 – 14% (INR88b), FY23 – 21% (INR127b) and post-FY23 – 43% (INR263b).

Exhibit 15: Debt repayment schedule – 63% of long term debt repayments only after FY22

Debt maturity profile	FY21	FY22	FY23	FY24 and onwards
Long-term Debt maturities	63,725	77,889	1,16,490	2,45,526
Advance from Duferco (tentative)	10,100	10,100	10,100	10,240
Acceptances for capital projects	27,100			
Commercial papers	38,330			
Total	**1,39,255**	**87,989**	**1,26,590**	**2,55,766**

Source: Company

Exhibit 16: JSTL's liquidity exposure

INR m	<1 year	1-5 year	> 5 years	Total
Financial liabilities				
Long-term borrowings	-	3,49,900	96,830	4,46,730
Short-term borrowings	83,250	-	-	83,250
Trade payables	1,79,180	-	-	1,79,180
Derivative liabilities	2,510	1,300	-	3,810
Lease liabilities	3,060	11,620	5,820	20,500
Other financial liabilities	1,41,430	4,570	70	1,46,070
Total	**4,09,430**	**3,67,390**	**1,02,720**	**8,79,540**

Source: Company

Contingent liabilities increase by INR8.2b in FY20

JSTL's consolidated contingent liabilities increased by INR8.2b to INR56.8b in FY20. Contingent liabilities related to tax payments to the exchequer stood at INR35.1b (62% of the total). Contingent liabilities as a percentage of networth stood at 15.5% in FY20 v/s 14.0% in FY19. JSTL sees the remote possibility of materialization of the Karnataka government's claims related to the Forest Development Tax amounting to INR25.8b. However, it has paid INR9.2b under protest in previous years.

Exhibit 17: Contingent liabilities (consolidated) – INR m

Particulars	FY19	FY20
Guarantees	470	820
Disputed claims/levies (excluding interest, if any), in respect of:		
Excise duty	4,630	4,910
Custom-duty	7,410	7,740
Income tax	210	320
Sales tax / Special entry tax	13,340	15,090
Service tax	6,590	7,020
Miscellaneous	90	-
Levies by local authorities	530	540
Levies relating to Energy / Power Obligations	2,080	2,770
Claim by suppliers and other parties	900	980
Claims related to Forest Development Tax / Fee (net of INR9.2b paid under protest)	12,400	16,660
Total	**48,650**	**56,850**
As % of Networth	14.0%	15.5%

Source: Company, MOFSL

Free cash flow remains weak on high capex

FCF turns negative in FY20 on lower OCF and increased capex

Despite JSTL's EBITDA declining by INR78b to INR112b in FY20, OCF declined by just INR18.5b due to the release of working capital and lower income tax payments. As a result, the EBITDA to OCF conversion ratio improved to 1.2x v/s 0.9x in FY19. However, an increase in cash capex by INR26b YoY to INR128b in FY20 resulted in FCF turning negative in FY20. FY20 FCF stood at negative INR0.25b v/s INR44.2b in FY19. FCF post interest and acquisitions stood at negative INR41.1b v/s negative INR6.6b in FY19.

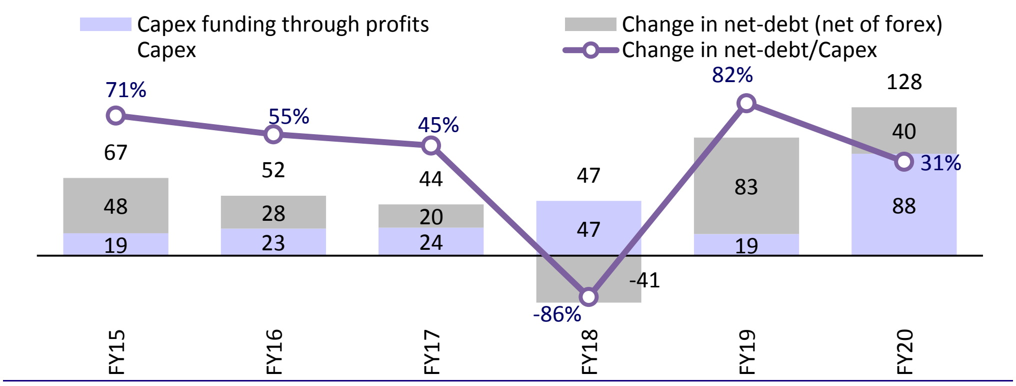
Over the last three years (FY17–20), JSTL has reported cumulative EBITDA of INR571b and OCF of INR477b. However, a change in working capital includes the receipt of advance of INR48b from Duferco in FY19. Adj. for this, OCF in FY17-20 would stand at INR429b. Over FY18–20, cumulative net interest payments stood at INR147b, leaving INR282b at the company's disposal for capital expenditure, acquisitions, and dividend payments. During FY18–20, the company incurred INR322b toward capex and INR18b toward acquisitions, resulting in negative FCF of INR58b. The company distributed INR28b as dividends during this period, leading to cash outflow of INR86b, funded through an increase in debt over FY18–20. During FY17–20, JSTL's net debt rose by INR117b; however, a part of this increase (INR34b) was on account of adverse forex movement.

Exhibit 18: JSTL's FCF turns negative in FY20; capex and interest funded by OCF over FY18–20

INR m	FY17	FY18	FY19	FY20	Cumulative (FY18-20)
EBITDA	1,22,598	1,46,860	1,89,520	1,11,570	4,47,950
Change in WC	-38,690	-11,010	-15,810	16,390	-10,430
Tax paid	-2,370	-14,400	-26,300	-11,550	-52,250
Other Adj.	-2,658	2,340	-1,080	11,440	12,700
OCF	**78,880**	**1,23,790**	**1,46,330**	**1,27,850**	**3,97,970**
Capex	**-44,350**	**-47,360**	**-1,02,060**	**-1,28,100**	**-2,77,520**
Free Cashflow	**34,530**	**76,430**	**44,270**	**-250**	**1,20,450**
Acquisitions/investment in subsidiaries/JVs	-1,470	-3,610	-14,270	1,000	-16,880
Interest cost net of dividend and interest income	-34,510	-33,850	-36,570	-41,840	-1,12,260
Free Cashflow post interest	**-1,450**	**38,970**	**-6,570**	**-41,090**	**-8,690**

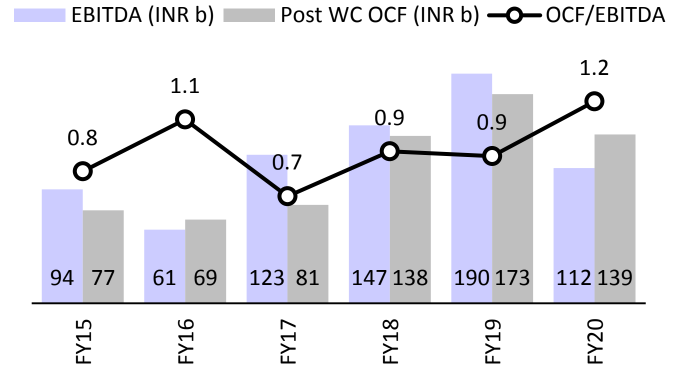
Source: Company

Exhibit 19: Capex funded through a mix of internal accruals and fresh debt



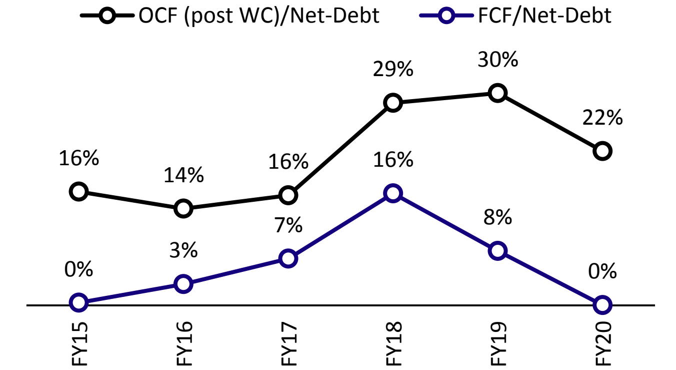
Source: Company, MOFSL

Exhibit 20: Cash conversion ratio improved to 1.2x



Source: Company, MOFSL

Exhibit 21: OCF / Net debt weakens to 22%



Source: Company, MOFSL

Working capital declines in FY20 on increase in payables

JSTL's working capital declined by INR55b to INR102b in FY20. This was due to decline in inventory and receivables and an increase in trade payables (excl. acceptances). Lower steel prices as well as a decline in share of domestic sales in FY20 led to a reduction in receivables which fell by 8 days to 23 days of sales. Meanshile, payables increased by 15 days to 41 days of sales partly offset by increase in inventory by 7 days to 70 days of sales. As a result, net working capital days reduced by 16 days to 52 days of sales.

Exhibit 22: Working capital declines in FY20, led by lower receivables and increase in payables

INR m	FY17	FY18	FY19	FY20
Inventories	1,13,950	1,25,940	1,45,480	1,38,640
Trade receivables	41,490	47,040	71,600	45,050
Trade payables (excl. acceptances)	38,460	69,110	59,310	81,200
Net Working Capital (NWC)	**1,16,980**	**1,03,870**	**1,57,770**	**1,02,490**
Trade payables acceptances (suppliers/buyers' credit)	95,020	90,330	1,02,280	97,980
NWC net of acceptances	21,960	13,540	55,490	4,510

Source: Company

Exhibit 23: Working capital days improve by 16 days to 52 days

Working Capital Days	FY17	FY18	FY19	FY20
Inventories	75	66	63	70
Trade receivables	27	24	31	23
Trade payables (excl. acceptances)	25	36	26	41
Net Working Capital	**77**	**54**	**68**	**52**
Trade payables acceptances (suppliers/buyers' credit)	62	47	44	49
NWC net of acceptances	14	7	24	2

Source: Company, MOFSL

Overseas subsidiaries widen losses

Indian subsidiaries continue strong performance

JSTL's key Indian subsidiaries performed well even in FY20 led by strong performace by JSW Coated whose EBITDA rose 40% YoY YoY to INR5.5b. Amba River Coke however reported 11% YoY decline in EBITDA to INR3.88b. Both the subsidiaries though reported an increase in PAT due to lower tax rates.

Overseas subsidiaries remain a drag, requiring parent support

JSTL's overseas subsidiaries remained a drag on consolidated earnings and widened their losses in FY20. JSW (USA) Inc's EBITDA turned negative in FY20 with a loss of INR2.14b v/s postive EBITDA of INR1.9b in FY19. JSW (USA) Ohio Inc reported EBITDA loss of INR7.9b v/s loss of INR2.9b last year. JSW Italy Plombino (earlier referred to as Aferpi) reported EBITDA loss of INR2.3b v/s loss of INR1.7b last year.

Combined post tax losses of the three overseas subsidiaries widened in FY20 to INR22.4b, eroding 44% of the standalone PAT. The comprable loss in FY19 stood at INR8.3b, eroding 10% of the standalone PAT.

Exhibit 24: Subsidiaries and JVs' performances (INR m) – Overseas subsidiaries' losses increase in FY20

	JSW Coated Products	Amba River Coke	JSW (USA) Inc	JSW (USA) Ohio Inc	JSW Italy Plombino S.p.A	Monnet Ispat & Energy Ltd
Nature of business	**Sale of coated products**	**Sale of coke and pellets**	**Manufacturing plates, pipes and double jointing**	**Manufacturing of slabs and hot rolled coils**	**Produces & distributes special long steel products**	**Producer of Steel (Joint Venture)**
Share Capital	8,001	9,319	60,535	2,468	1,750	
Reserves and Surplus	19,600	9,280	-67,132	-17,505	-1,763	
Net Worth	27,600	18,599	-6,597	-15,037	-13	
FY20						
EBITDA/(loss)	5,500	3,880	-2,140	-7,900	-2,360	-450
PAT/(loss)	2,960	1,940	-8,619	-10,100	-3,640	-4,920
FY19						
EBITDA/(loss)	3,930	4,340	1,900	-2,940	-1,730	-150
PAT/(loss)	800	1,760	-3,630	-3,230	-1,390	-2,820

Source: Company, MOFSL

Parent supports overseas subsidiaries through loans and advances

JSTL extended loans of ~INR12.0b to Periama Holdings, LLC in FY20, taking the total receivables from the entity to INR61.3b. Periama Holdings LLC is the parent company of JSW (USA) Inc. and the West Virginia coal mines. JSTL also extended loans of INR7.1b to Acero Junction Holdings (JSW USA Ohio) in FY20. Overall, the balance of loans and advances to subsidiaries stood at INR89.8b in FY20 (v/s INR79.8b in FY19). JSTL had interest receivables of INR7.9b from overseas subsidiaries at FY20-end.

Against the loans and advances given to overseas subsidiaries and interest accumulated thereon, JSTL has thus far provided for INR16.0b as doubtful in its books of accounts (of which INR9.2 was provided for in FY20).

Exhibit 25: Loans and advances to subsidiaries by JSTL

INR m	FY19	FY20
Periama Holdings, LLC (holding co. of JSW (USA) and West Virginia)	49,360	61,340
JSW (Netherlands) B.V.	13,180	2670
Acero Junction Holdings, Inc.	7990	15,090
Others	9250	10,690
Total	**79,780**	**89,790**

Source: Company, MOFSL

Exhibit 26: Interest receivables from subsidiaries

INR m	FY19	FY20
Inversiones Eurosh Limitada (Holding Co. of Santa Fe Mining in Chile)	1,920	2,090
Periama Holdings, LLC	3,960	4,310
Acero Junction Holdings, Inc.	190	1,160
Others	290	360
Total	**6,360**	**7,920**

Source: Company, MOFSL

Exhibit 27: Provision made for unrecoverable loans and advances and interest receivable

INR m	FY19	FY20
JSTL (Netherlands) B.V.	4,760	2,070
Periama Holdings, LLC	0	3,770
Inversiones Eurosh Limitada	1,970	10,110
Others	30	40
Total	**6,760**	**15,990**

Source: Company, MOFSL

Valuation and view

- We like JSTL given its strong pipeline of projects and cost reduction initiatives. On the domestic front, while on one hand, the company should deliver above-industry volume growth in FY22, driven by expansion, on the other hand, margins should also improve, aided by a better product mix. Any turnaround in loss-making overseas operations could provide a further upside.
- In the near term, we expect JSTL to tide over the disruption caused by COVID-19, supported by higher exports, cost reductions, and capex curtailment. Although net debt is forecast to rise to INR676b in FY22E (from INR639b in FY20), we expect it to decline subsequently as the capex phase ends and invested projects start to generate cash flows. We value JSTL at 7.0x FY22E EV/EBITDA to arrive at TP of INR242/share. Maintain **Buy**.

Exhibit 28: Target price calculation

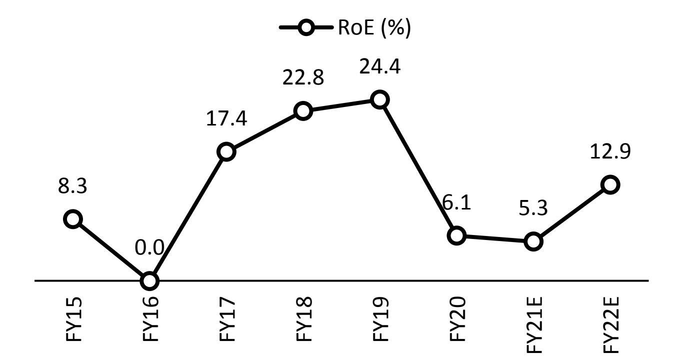
Y/E March	2020	2021E	2022E
A. S/A volumes	15.1	14.4	18.0
B. EBITDA per ton	7,824	7,949	9,441
C. S/A EBITDA (AxB)	1,17,990	1,14,478	1,69,946
D. Sub. EBITDA	-6,420	-2,328	8,300
E. Cons. EBITDA (C+D)	1,11,570	1,12,150	1,78,246
F. Target EV/EBITDA (x)			7.0
G. Target EV (FxG)			**12,47,720**
less: Net Debt (Rs m)	6,39,300	6,64,609	6,76,029
Add: Non-current investments (at Book value)			9,740
Equity value			**5,81,430**
No. of shares			2,400
Equity value /sh.			**242**

Source: MOFSL

Return ratios declined in FY20, to stay weak even in FY21

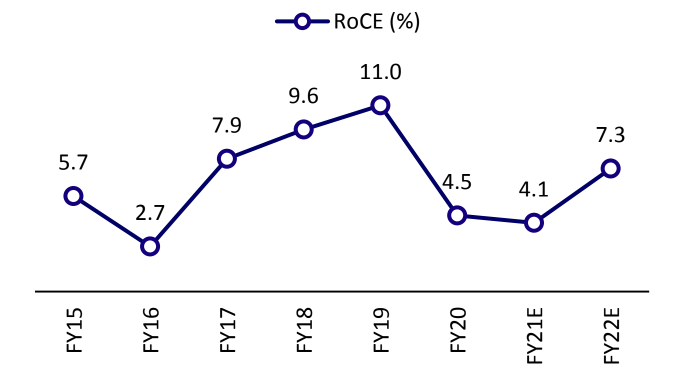
In FY20, EBITDA / adj PAT declined by 41%/72% YoY to INR112b/INR22b. As a result, returns ratios declined sharply, with RoE contracting to 6.1% (down 23.3pp) and RoCE to 4.5% (down 6.5pp). We expect return ratios to remain depressed even in FY21 on weak expected profitability. However, with an improved demand outlook and higher volumes in FY22 on the back of the Dolvi expansion, we expect return ratios to improve in FY22, albeit still at lower levels than FY19.

Exhibit 29: RoE declines 18.3pp to 6.1% in FY20



Source: Company, MOFSL

Exhibit 30: RoCE declines 6.5pp to 4.5% in FY20



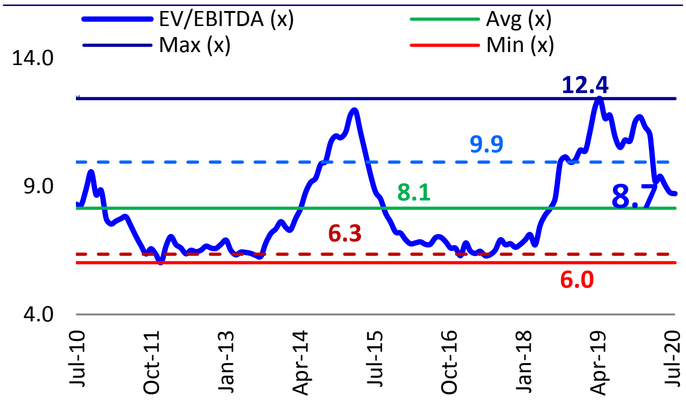
Source: Company, MOFSL

Trading at a discount to 10-year average P/BV due to weak earnings

JSTL is trading at a 1-year forward P/BV of 1.25x, which is a 10% discount to its past 10 years' average and 25% discount to its past 5 years' average. The discount is largely on account of weak near term earnings outlook which is likely to result in sub-par ROE of 5.3% in FY21 (vs last 10-year average ROE of 11%). We expect valuations to recover gradually as we expect ROE to recover to 13% in FY22E.

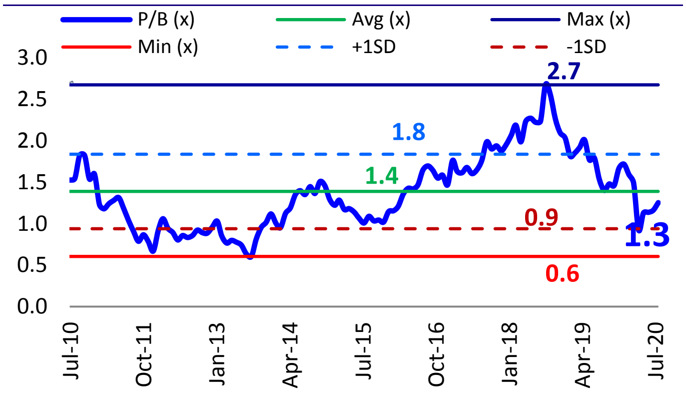
On earnings based valuation, the stock however seems to be trading marginally above its 10-year average multiples due to weak near term earnings. We note that it is trading at a 1-year forward EV/EBITDA of 8.7x, which is a 7% premium to its past 10 years' average of 8.1x and 4% premium to its past 5 years' average of 8.4x. On FY22 basis, when earnings are expected to normalize, we see the stock trading at 6.6x EV/EBITDA which offers upside.

Exhibit 31: JSTL trading at 8.7x 1-yr fwd EV/EBITDA



Source: MOFSL, Bloomberg

Exhibit 32: JSTL trading at 1.3x 1-yr fwd P/B



Source: MOFSL, Bloomberg

Financials and valuations

Income Statement (Consolidated)							(INR m)
Y/E March	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Net sales	**4,18,789**	**5,56,046**	**7,00,870**	**8,47,570**	**7,26,100**	**6,72,086**	**8,75,138**
Change (%)	-20.9	32.8	26.0	20.9	-14.3	-7.4	30.2
Total Expenses	3,58,059	4,33,448	5,54,010	6,58,050	6,14,530	5,59,936	6,96,892
EBITDA	**60,730**	**1,22,598**	**1,46,860**	**1,89,520**	**1,11,570**	**1,12,150**	**1,78,246**
% of Net Sales	14.5	22.0	21.0	22.4	15.4	16.7	20.4
Depn. & Amortization	31,879	35,154	33,870	40,410	42,460	45,599	52,692
EBIT	**28,851**	**87,444**	**1,12,990**	**1,49,110**	**69,110**	**66,551**	**1,25,554**
Net Interest	33,027	37,681	37,010	39,170	42,650	42,600	55,200
Other income	1,682	1,521	1,670	2,040	5,460	5,390	5,444
PBT before EO	**-2,494**	**51,284**	**77,650**	**1,11,980**	**31,920**	**29,341**	**75,797**
EO income	-21,254		5,730		20,610		
PBT after EO	**-23,748**	**51,284**	**83,380**	**1,11,980**	**52,530**	**29,341**	**75,797**
Tax	-15,241	16,743	22,670	36,440	12,440	9,910	23,850
Rate (%)	64.2	32.6	27.2	32.5	23.7	33.8	31.5
Reported PAT	**-8,508**	**34,541**	**60,710**	**75,540**	**40,090**	**19,430**	**51,948**
Minority interests	950	64	990	1,150	1,110	1,215	1,215
Share of Associates	138	1,193	420	-300	-900	-964	-964
Preference dividend	279						
Adj. PAT (after MI & Asso)	**-84**	**35,798**	**57,948**	**76,390**	**21,683**	**19,681**	**52,199**
Change (%)	-100.5	-42,485	61.9	31.8	-71.6	-9.2	165.2

Balance Sheet							(INR m)
Y/E March	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Share Capital	2,417	2,400	2,410	2,400	2,400	2,400	2,400
Reserves	1,85,032	2,24,070	2,77,570	3,45,550	3,63,590	3,78,221	4,25,369
Net Worth	**1,87,449**	**2,26,470**	**2,79,980**	**3,47,950**	**3,65,990**	**3,80,621**	**4,27,769**
Minority Interest	68	-2,460	-4,640	-4,500	-5,750	-5,750	-5,750
Total Loans	5,13,038	5,40,200	4,96,470	6,37,980	7,59,350	7,59,350	7,59,350
Deferred Tax Liability	39,123	29,900	25,560	37,770	16,770	20,812	29,502
Capital Employed	**7,39,678**	**7,94,110**	**7,97,370**	**10,19,200**	**11,36,360**	**11,55,033**	**12,10,872**
Gross Block	7,89,575	6,63,830	6,88,170	7,74,980	8,10,940	8,90,940	11,40,940
Less: Accum. Deprn.	2,26,239	76,530	1,09,690	1,48,540	1,91,000	2,36,599	2,89,290
Net Fixed Assets	**5,63,336**	**5,87,300**	**5,78,480**	**6,26,440**	**6,19,940**	**6,54,341**	**8,51,650**
Capital WIP	69,040	43,630	59,500	1,18,890	2,71,910	2,81,910	1,21,910
Investments	6,184	10,660	11,570	18,120	12,570	12,570	12,570
Curr. Assets	**2,07,727**	**2,38,460**	**2,70,150**	**3,84,520**	**4,13,780**	**3,82,346**	**4,23,685**
Inventory	84,034	1,13,950	1,25,940	1,45,480	1,38,640	1,35,214	1,75,179
Account Receivables	28,016	41,490	47,040	71,600	45,050	42,351	55,146
Cash and Bank Balance	7,340	17,850	13,750	62,690	1,20,050	94,741	83,321
Others	88,337	65,170	83,420	1,04,750	1,10,040	1,10,040	1,10,040
Curr. Liability & Prov.	**1,06,610**	**85,940**	**1,22,330**	**1,28,770**	**1,81,840**	**1,76,135**	**1,98,943**
Account Payables	37,125	38,460	69,110	59,310	81,200	75,495	98,303
Provisions & Others	69,485	47,480	53,220	69,460	1,00,640	1,00,640	1,00,640
Net Current Assets	**1,01,117**	**1,52,520**	**1,47,820**	**2,55,750**	**2,31,940**	**2,06,212**	**2,24,742**
Appl. of Funds	**7,39,678**	**7,94,110**	**7,97,370**	**10,19,200**	**11,36,360**	**11,55,033**	**12,10,872**

Financials and valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)							
EPS	**(0.0)**	**14.9**	**24.0**	**31.8**	**9.0**	**8.2**	**21.8**
Cash EPS	9.7	29.0	39.2	48.3	34.4	27.1	43.6
BV/Share	77.5	94.4	116.2	145.0	152.5	158.6	178.3
DPS	1.1	0.8	2.3	3.3	4.1	2.0	2.0
Payout (%)		6.1	11.3	12.2	55.1	24.4	9.2
Valuation (x)							
P/E			8.1	6.5	22.9	25.2	9.5
Cash P/E			5.0	4.3	6.0	7.6	4.7
P/BV			1.7	1.4	1.4	1.3	1.2
EV/Sales			1.4	1.3	1.6	1.7	1.3
EV/EBITDA			6.5	5.7	10.2	10.4	6.6
Dividend Yield (%)			1.2	1.6	2.0	1.0	1.0
EV/ton			946	974	1,063	1,075	869
Return Ratios (%)							
EBITDA Margins (%)	14.5	22.0	21.0	22.4	15.4	16.7	20.4
Net Profit Margins (%)	(0.0)	6.4	8.3	9.0	3.0	2.9	6.0
RoE	(0.0)	17.4	22.8	24.4	6.1	5.3	12.9
RoCE (pre-tax)	2.7	7.9	9.6	11.0	4.5	4.1	7.3
RoIC (pre-tax)	3.0	8.5	10.6	13.0	6.0	6.0	9.6
Working Capital Ratios							
Fixed Asset Turnover (x)	0.5	0.8	1.0	1.1	0.9	0.8	0.8
Asset Turnover (x)	0.6	0.7	0.9	0.8	0.6	0.6	0.7
Debtor (Days)	24	27	24	31	23	23	23
Inventory (Days)	73	75	66	63	70	70	70
Creditors(Days)	32	25	36	26	41	41	41
Working Capital (Days)	65	77	54	68	52	52	52
Leverage Ratio (x)							
Current Ratio	1.9	2.8	2.2	3.0	2.3	2.2	2.1
Interest Cover Ratio	0.9	2.3	3.1	3.8	1.6	1.6	2.3
Debt/Equity	2.7	2.3	1.7	1.7	1.7	1.7	1.6

Cash Flow Statement (Consolidated) (INR m)

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
EBITDA	60,730	1,22,598	1,46,860	1,89,520	1,11,570	1,12,150	1,78,246
Non cash exp. (income)	2,172	-2,658	2,340	-1,080	11,440		
(Inc)/Dec in Wkg. Cap.	6,189	-38,690	-11,010	-15,810	16,390	420	-29,951
Tax Paid	-2,055	-2,370	-14,400	-26,300	-11,550	-5,868	-15,159
CF from Op. Activity	**67,035**	**78,880**	**1,23,790**	**1,46,330**	**1,27,850**	**1,06,701**	**1,33,135**
(Inc)/Dec in FA + CWIP	-51,787	-44,350	-47,360	-1,02,060	-1,28,100	-90,000	-90,000
(Pur)/sale of Invest.	-1	-2,940	90	2,510	850		
Acquisition in subs.		-1,470	-3,610	-14,270	1,000		
Int. & Dividend Income	631	1,180	1,260	1,580	5,130	5,390	5,444
Others	39	450	600	-2240	-74740		
CF from Inv. Activity	**-51,118**	**-47,130**	**-49,020**	**-1,14,480**	**-1,95,860**	**-84,610**	**-84,556**
Equity raised/(repaid)		20	-270	-1,530	60		
Debt raised/(repaid)	3,781	10,750	-39,920	66,540	1,10,750		
Dividend (incl. tax)	-3,536	-2,180	-6,550	-9,330	-11,950	-4,799	-4,799
Interest paid	-27,997	-35,690	-35,110	-38,150	-46,970	-42,600	-55,200
CF from Fin. Activity	**-27,752**	**-27,100**	**-81,850**	**17,530**	**51,890**	**-47,400**	**-60,000**
(Inc)/Dec in Cash	**-11,835**	**4,650**	**-7,080**	**49,380**	**-16,120**	**-25,309**	**-11,421**
Add: opening Balance	19,136	7,340	17,850	13,750	62,690	1,20,050	94,741
Regrouping etc	39	5,860	2,980	-440	73,480		
Closing Balance	**7,340**	**17,850**	**13,750**	**62,690**	**1,20,050**	**94,741**	**83,321**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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