

JSW STEEL

METALS / MINING

25 MAY 2017

Quarterly Update

BUY

Target Price: Rs 263

Capex guidance improves visibility

Strong quarter: Q4FY17 consolidated EBITDA was up 73% YoY at Rs32bn, in line with our estimate. The rise was mainly due to: (1) higher volumes as the company pushed export sales to counter muted domestic demand, (2) strong realization due to upswing in steel prices, and (3) increase in value added product in overall sales mix.

Steel outlook: Chinese steel price has corrected from USD 500/t to 420/t in past 2 months due to fall in iron ore and spot coking coal prices. Domestic steel prices have also corrected by 3-5% due to weak demand and falling RM costs. We expect domestic steel prices to stabilize at current levels due to continuous drop in imports and recently imposed 5-year definitive anti-dumping duty on steel products.

CMP : Rs 207
Potential Upside : 27%

MARKET DATA

No. of Shares : 2,417 mn
Free Float : 58%
Market Cap : Rs 500 bn
52-week High / Low : Rs 209 / Rs 128
Avg. Daily vol. (6mth) : 5.9 mn shares
Bloomberg Code : JSTL IB Equity
Promoters Holding : 42%
FII / DII : 21% / 2%

Key highlights

- ♦ **Volumes:** Volume growth of 21% YoY at 4.0 mnt due to ramp-up in exports to 36% of overall sales in Q4FY17 vs. 12% of overall sales in Q4FY16. Overall domestic steel production in FY17 increased by 8.5% sales, but the domestic sales grew by only 2.6%; the excess production was sold in export markets. The company expects 5% industry growth in FY18; hence, the company's realization will improve when domestic demand picks up, as it has the option to route export sales to higher-yielding domestic market. JSW guided FY18 production volumes at 16.5mnt/ 15.5mnt crude steel/salable steel (15.8mnt/14.8mnt in FY17).

(Continued on page 2...)

Estimates and valuation

We roll over the target price to FY19 and value the company at 6x EV/EBITDA. Our revised target price stands at Rs 263 (27% upside from CMP of Rs 207). Maintain **BUY**. We revise our EPS estimates for FY18/19 to Rs20/22 (Rs 22/23 earlier) mainly on higher cost assumptions.

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs bn)	412	546	634	715
EBITDA (Rs bn)	61	122	146	153
Adj PAT (Rs bn)	14	35	46	52
Con. EPS* (Rs)	-	-	17.6	20.7
EPS (Rs)	5.7	14.6	19.1	21.4
Change YOY (%)	(41.3)	154.7	31.1	11.9
P/E (x)	36.1	14.2	10.8	9.7
RoE (%)	6.2	15.9	18.7	17.8
EV/E (x)	15.2	7.7	6.4	6.0
DPS (Rs)	0.9	2.6	2.1	2.3

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(Rs/t)	FY17	FY18E	FY19E
Volumes (mnt)	14.8	15.5	16.5
Blended realisation	32,800	39,290	41,870
Blended EBITDA	7,800	9,360	9,250

Price performance

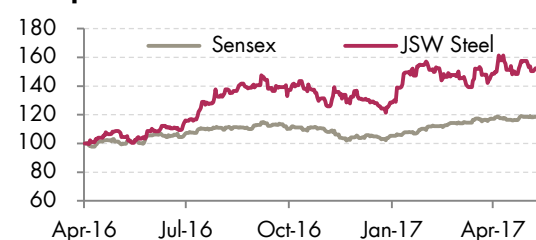


Exhibit 1: Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-17	Mar-16	% Chg	Dec-16	% Chg	FY18E	FY17	% Chg
Net Sales	166,562	106,975	55.7	140,126	18.9	633,953	546,282	16.0
EBITDA	31,649	18,246	73.5	28,669	10.4	145,609	121,742	19.6
Other income	558	808	(30.9)	333	67.7	371	1,521	(75.6)
PBITD	32,207	19,054	69.0	29,002	11.1	145,979	123,264	18.4
Depreciation	8,779	7,938	10.6	9,146	(4.0)	40,616	34,299	18.4
Interest	9,476	8,335	13.7	9,201	3.0	40,139	37,681	6.5
PBT	13,953	2,781	401.7	10,655	30.9	65,224	51,284	27.2
Tax	3,992	1,270	214.4	3,511	13.7	15,978	16,743	(4.6)
Minority Interest	(182)	(213)	(14.4)	(156)	16.8	(691)	(691)	0.0
Adjusted PAT	10,143	1,724	488.4	7,300	38.9	49,937	35,231	41.7
Extra ordinary income/ (exp.)	-	(11)	-	-	-	-	-	-
Reported PAT	10,143	1,713	492.3	7,300	38.9	49,937	35,231	41.7
No. of shares (mn)	242	2,417	-	2,417	-	2,417	2,417	-
EBITDA margin (%)	19.0	17.1	-	20.5	-	23.0	22.3	-
PBITD margin (%)	19.3	17.8	-	20.7	-	23.0	22.6	-
EPS - annualized (Rs.)	167.8	2.9	5,783.7	12.1	1,289.3	20.7	14.6	41.7

Source: Company, Axis Capital

(...continued from page 1)

Capex plans

JSW Steel has robust capex pipeline to boost capacity and allocated Rs 268 bn in capex through FY21. The company targets to meet 46% of capex through internal accruals.

- ♦ **Dolvi:** Steel capacity to increase from 5 mnt to 10 mnt at a project cost of Rs 150 bn. The company expects to commission it by March 2020
- ♦ **Vijayanagar blast furnace-3 revamp and upgradation:** Capacity to increase from 3 mnt to 4.5 mnt at a cost of Rs 10 bn. Once commissioned, furnace 3 will replace capacity of blast furnace 2. The company expects to commission it in 20 months
- ♦ **Vijayanagar CRM-1 complex capacity expansion:** To increase steel capacity from 0.85 mnt to 1.8 mnt; 2 Continuous Galvanizing Lines of 0.45 mnt each; a new 1.2 mnt Continuous Pickling Line for HRPO products; and a new 0.8 mnt HR Skin Pass Mill. Total cost to be Rs 20 bn. The company expects to commission it by September 2019
- ♦ **Vasind and Tarapur:** Modernization project at total cost of Rs 12 bn to be commissioned by April 2019 which includes:
 - increase in cold rolling capacity from 1.16 MTPA to 2.12
 - increase in GI/GL capacity by 0.63 MTPA
 - increase in color coating capacity by 0.08 MTPA

Additionally, JSW is expected to commission coke oven by the end of CY17 at a cost of Rs 20 bn, of which Rs 10 bn is spent. This will reduce cost, as the company imports its coking coal requirement.

Financial summary (Consolidated)

Profit & loss (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	412	546	634	715
Other operating income	7	10	7	7
Total operating income	419	556	641	723
Cost of goods sold	(272)	(332)	(414)	(476)
Gross profit	146	224	227	247
<i>Gross margin (%)</i>	<i>35.5</i>	<i>41.0</i>	<i>35.7</i>	<i>34.5</i>
Total operating expenses	(86)	(102)	(81)	(94)
EBITDA	61	122	146	153
<i>EBITDA margin (%)</i>	<i>14.7</i>	<i>22.3</i>	<i>23.0</i>	<i>21.4</i>
Depreciation	(32)	(34)	(41)	(41)
EBIT	29	87	105	112
Net interest	(33)	(38)	(40)	(40)
Other income	2	2	-	1
Profit before tax	(2)	51	65	73
Total taxation	15	(17)	(19)	(22)
<i>Tax rate (%)</i>	<i>611.1</i>	<i>32.6</i>	<i>30.0</i>	<i>30.0</i>
Profit after tax	13	35	45	51
Minorities	1	1	1	1
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	14	35	46	52
<i>Adj. PAT margin (%)</i>	<i>3.4</i>	<i>6.4</i>	<i>7.3</i>	<i>7.2</i>
Net non-recurring items	(21)	-	-	-
Reported net profit	(7)	35	46	52

Balance sheet (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	2	2	2	2
Reserves & surplus	214	224	265	312
Net worth	216	226	268	314
Borrowing	431	453	456	454
Other non-current liabilities	11	30	30	30
Total liabilities	659	707	750	795
Gross fixed assets	755	839	867	878
Less: Depreciation	(226)	(261)	(300)	(342)
Net fixed assets	529	579	567	536
Add: Capital WIP	76	44	93	133
Total fixed assets	605	622	660	669
Total Investment	6	11	11	11
Inventory	28	41	31	39
Debtors	84	114	109	130
Cash & bank	7	18	25	39
Loans & advances	80	65	114	131
Current liabilities	162	173	208	234
Net current assets	38	65	71	106
Other non-current assets	10	9	9	9
Total assets	659	707	750	795

Source: Company, Axis Capital

Cash flow (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	(2)	51	65	73
Depreciation & Amortisation	32	34	41	41
<i>Chg in working capital</i>	<i>37</i>	<i>(17)</i>	<i>2</i>	<i>(22)</i>
Cash flow from operations	114	89	129	110
<i>Capital expenditure</i>	<i>(54)</i>	<i>(51)</i>	<i>(80)</i>	<i>(50)</i>
Cash flow from investing	(54)	(51)	(80)	(50)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(14)</i>	<i>22</i>	<i>3</i>	<i>(2)</i>
<i>Dividend paid</i>	<i>(3)</i>	<i>(7)</i>	<i>(5)</i>	<i>(6)</i>
Cash flow from financing	(50)	(22)	(42)	(47)
Net chg in cash	11	16	7	13

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	5.7	14.6	19.1	21.4
CEPS (Rs)	10.1	28.8	35.9	38.4
DPS (Rs)	0.9	2.6	2.1	2.3
Dividend payout ratio (%)	(30.2)	17.8	10.8	10.8
GROWTH				
Net sales (%)	(20.8)	32.5	16.0	12.8
EBITDA (%)	(38.8)	100.5	19.6	5.2
Adj net profit (%)	(41.3)	154.7	31.1	11.9
FDEPS (%)	(41.3)	154.7	31.1	11.9
PERFORMANCE				
RoE (%)	6.2	15.9	18.7	17.8
RoCE (%)	4.5	13.0	14.4	14.6
EFFICIENCY				
Asset turnover (x)	0.6	0.8	0.9	1.0
Sales/ total assets (x)	0.5	0.6	0.7	0.7
Working capital/ sales (x)	0.1	0.1	0.1	0.1
Receivable days	74.4	76.1	62.7	66.4
Inventory days	28.6	34.9	23.1	25.3
Payable days	164.7	145.1	153.2	149.8
FINANCIAL STABILITY				
Total debt/ equity (x)	1.9	2.1	1.9	1.6
Net debt/ equity (x)	1.9	2.0	1.8	1.4
Current ratio (x)	1.2	1.4	1.3	1.5
Interest cover (x)	0.9	2.3	2.6	2.8
VALUATION				
PE (x)	36.1	14.2	10.8	9.7
EV/ EBITDA (x)	15.2	7.7	6.4	6.0
EV/ Net sales (x)	2.2	1.7	1.5	1.3
PB (x)	2.3	2.2	1.9	1.6
Dividend yield (%)	0.4	1.3	1.0	1.1
Free cash flow yield (%)	12.1	7.6	9.7	12.1

Source: Company, Axis Capital

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, authors (Research team) and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associates do not have any material conflict of interest. I/we have not served as director, officer or employee in the subject company.

Research Team

Sr. No	Name	Designation	E-mail
1	Poonam Darade	Research Associate	poonam.darade@axissecurities.in
2	Pankaj Bobade	Research Analyst	pankaj.bobade@axissecurities.in

5. ASL or its associates has not received any compensation from the subject company in the past twelve months. ASL or its Research Analysts has not been engaged in market making activity for the subject company.

6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

- i. Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;
- ii. Managed or co-managed public offering of the securities from the subject company of this research report and / or;
- iii. Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 18002100808/022-61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkarMarg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.