

- ❑ JSW Steel Limited (JSTL) has reported a decline of 18.5% in its consolidated revenues at ₹1,75,720 million in Q2-FY20 as against ₹2,15,520 million in same quarter previous year. The decline was mainly due to mix of factors like prolonged monsoon impacting operations/logistics, weak demand environment, sustained tight liquidity conditions, certain planned shutdowns and a sharp correction in steel prices.
- ❑ The company's consolidated operating margins during the quarter stood 15.5% at ₹27,310 million as against 22.8% at ₹49,060 million in Q2-FY19, a contraction of ~720 basis points. The decline in margins was due to lower realisation as well as lower volumes. The company's standalone EBITDA per ton for the quarter declined to around ₹7,800 in Q2-FY20 as against around ₹12,000 in same quarter previous year. The company's consolidated profit after tax (PAT) margins stood 13.3% at ₹23,430 million in Q2-FY20 as against 8.6% at ₹18,440 million in Q2-FY19, the improvement in PAT was mainly due to tax adjustments owing to corporate tax cut.
- ❑ During the quarter the crude steel production declined 8.1% YoY to 3.84 million tonnes. In terms of sales volume, the company has sold 3.6 million tons of steel in Q2-FY20 as against 3.96 million tons in Q2-FY19. The moderation in sales volume was mainly attributable to sharp decline in both flat products and semis sales attributable to weak demand in Auto and industrial segments.
- ❑ On the company's subsidiary businesses, the US based Plate and Pipe Mill facility produced 58,106 net tonnes of Plates and 15,746 net tonnes of Pipes, operating at a capacity utilization of 25% and 11%, respectively, during the quarter. Sales volumes for the quarter stood at 53,333 net tonnes of Plates and 7,020 net tonnes of Pipes. It reported EBITDA loss of \$11.2 million for the quarter, mainly due to lower realization and inventory write-down of \$3.5 million. The JSW Steel Coated Products registered a production volume of 0.42 million tons and sales volume of 0.43 million tonnes. Revenue from operations and operating EBITDA for the quarter stood at ₹2,788 crores and ₹153 crores respectively. The net profit after Tax stood at ₹157 crores for the quarter.
- ❑ On capex front, the company's key projects, augmenting crude steel capacity at Dolvi Works from 5 to 10 MTPA, 12 to 13 MTPA expansion (except BF-3 enhancement) at Vijayanagar Works, capacity expansion of CRM-1 complex at Vijayanagar Works and certain other downstream projects are progressing satisfactorily towards commissioning.
- ❑ On guidance front, the management has lowered its guidance for both steel production and sales volume by 3% from earlier 16.95 MT and 16MT to 16.45 and 15.5 million tons respectively for the financial year FY-20. In terms of steel conversion spreads, the management expects spreads to improve in coming quarters owing to positive impact of lower cost and low probability of further decline in steel prices.
- ❑ We have incorporated latest numbers and revised our projections for the company. We continue to remain positive for long term on JSW Steel Limited and maintain our **BUY** rating on the stock with a target price of **₹283 per share**.

Q2-FY20 Results (Consolidated)

(In ₹ mn)	Q2-FY20	Q2-FY19	Chg	H1-FY20	H1-FY19	Chg
Net Sales	1,75,720	2,15,520	-18.5%	3,73,840	4,20,710	-11.1%
Operating Expense	1,48,410	1,66,460	-10.8%	3,09,370	3,20,600	-3.5%
EBITDA	27,310	49,060	-44.3%	64,470	1,00,110	-35.6%
Other Income	1,560	560		2,970	1,140	
Depreciation	10,570	9,740		20,830	18,790	
EBIT	18,300	39,880	-54.1%	46,610	82,460	-43.5%
Interest	11,270	9,630		21,690	18,500	
PBT	7,030	30,250	-76.8%	24,920	63,960	-61.0%
Tax	(18,480)	9,360		(10,860)	19,890	
Exceptional Items	-	-		-	-	
PAT	25,510	20,890	22.1%	35,780	44,070	-18.8%
Minority /Other Adj.	(2,080)	(2,450)		(2,760)	(4,660)	
Consolidated PAT	23,430	18,440	27.1%	33,020	39,410	-16.2%

Margins	Q2-FY20	Q2-FY19	ChgBPS	H1-FY20	H1-FY19	ChgBPS
Operating Margin %	15.5%	22.8%	-722	17.2%	23.8%	-655
Net Margin %	13.3%	8.6%	478	8.8%	9.4%	-53

Consolidated Financials:

(In ₹ Mn.)	FY-18	FY-19	FY-20E	FY-21E
Net Sales	7,19,330	8,47,570	7,62,813	8,41,001
Operating Expense	5,71,390	6,58,050	6,29,321	6,74,904
EBITDA	1,47,940	1,89,520	1,33,492	1,66,098
Other Income	1,670	2,040	1,836	2,024
Depreciation	33,870	40,410	43,637	48,110
EBIT	1,15,740	1,51,150	91,691	1,20,012
Interest	37,010	39,170	39,523	40,084
Misc. items	(2,640)	-	-	-
PBT	76,090	1,11,980	52,169	79,928
Tax	15,380	36,440	7,825	19,982
Minority Interest	1,430	850	-	-
PAT	62,140	76,390	44,343	59,946

Margins	FY-18	FY-19	FY-20E	FY-21E
Sales Growth %	29.4%	17.8%	-10.0%	10.3%
Operating Margin %	20.6%	22.4%	17.5%	19.8%
Net Margin %	8.6%	9.0%	5.8%	7.1%

Source: Company, Anand Rathi Research

(In ₹ Mn.)	FY-18	FY-19	FY-20E	FY-21E
Liabilities				
Equity Share Capital	3,430	3,920	3,920	3,920
Reserves & Surplus	2,76,550	3,44,030	3,88,373	4,48,319
Total Shareholder's Funds	2,79,980	3,47,950	3,92,293	4,52,239
Minority Interest	(4,640)	(4,500)	(4,500)	(4,500)
Long-Term Liabilities	3,17,230	2,96,560	3,06,560	3,06,560
Other Long-term Liabilities	11,930	50,110	50,110	50,110
Deferred Tax Liability	25,560	37,770	37,770	37,770
Short-term Liabilities	2,89,640	4,20,080	3,78,072	4,16,824
Total	9,19,700	11,47,970	11,60,305	12,59,004
Assets				
Net Fixed Assets	6,37,980	7,45,330	7,64,373	8,03,139
Long-Term L&A	33,030	43,580	43,580	43,580
Non Current Investments	11,570	18,120	18,120	18,120
Other Non-Current Assets	5,200	5,390	5,390	5,390
Current Asset	2,31,920	3,35,550	3,28,842	3,88,775
Total	9,19,700	11,47,970	11,60,305	12,59,004

(In ₹ mn)	FY-18	FY-19	FY-20E	FY-21E
EPS (₹)	64.8	79.6	46.2	62.5
P/E (x)	3.8	3.1	5.3	3.9
P/B (x)	1.0	0.8	0.7	0.6
ROE	15.6%	22.2%	22.0%	11.3%
ROCE	15.2%	18.0%	20.8%	11.7%

Key Risks:

- ❑ The company's business is cyclical and is exposed to cyclical risks along with price risks of iron ore and steel. Any significant volatility could impact our estimates negatively.

Rating and Target Price history:

JSTL rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 16 November 2019 close.

JSTL rating details

Date	Rating	Target Price (₹)	Share Price (₹)
29-Oct-18	BUY	406	340
01-Mar-19	BUY	406	282
30-Aug-19	BUY	283	218
16-Nov-19	BUY	283	245

Source: Bloomberg, Anand Rathi Research



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