

Consistent but entering a slow growth lane, retain hold

JSW Steel (JSTL) maintained its strong performance despite difficult market conditions led by a strong surge in exports and tight cost control. The company announced that its next leg of growth capex would entail total spend of ~Rs268bn over FY18-21E and increase capacity by 5 mtpa at HRC level and ~ 2 mtpa at downstream (CR/Galvanised) products. While the new capex driven growth would start from FY20E, volume growth in the interim has been guided to remain at ~5% annualised range. We continue to like JSTL's low conversion cost asset base but see limited scope of positive earnings surprises with muted volume growth and pressure on spreads (particularly with a sharp fall in export realisations). Current valuations of 6.7x/6x FY18E/19E EV/EBITDA are fair and limit upside. Retain Hold.

- Volumes continue to be supported by export sales:** Sales volume stood at ~4MT (up 19% YoY), while blended realisations were up 8.4% QoQ, higher than our estimates by 3.9%. Domestic sales stood at 2.52MT (down 14% YoY), while export volume share stood at 36% with export volumes of 1.4MT, up 133% YoY (JSTL again demonstrated strong flexibility of selling geographically based on seasonal and other factors). Value-added products accounted for 34% of sales in FY17 and sales to automobile/appliances/solar sectors grew by 11%/128%/86% YoY in FY17.
- Operational performance above expectations, EBITDA/t stays flat QoQ:** Consolidated EBITDA at ~Rs31.6bn was above expectations and the steel business' EBITDA/t stood at ~Rs7,990 (flat QoQ) beating our estimates of ~Rs7,200/t as raw material cost increase was mitigated by strong pricing uptick aided by higher exports and other expenses were kept under control. Net debt was reduced by Rs25bn QoQ.
- Outlook & earnings revision:** JSTL has announced the next leg of brownfield capex at an attractive capex cost/t and low payback period but the volume benefit of the same would be visible from FY20E only and capex spend in the interim would remain elevated at Rs80bn annually. Steel pricing in the domestic market continues to remain higher than anti-dumping levels (US\$489/t) and faces downside risks as global steel prices are coming under pressure due to excess supplies from China and a sharp correction in coking coal prices. JSTL has guided for muted volume growth of 5% for FY18E and as a result our volume estimates are revised downwards by 4.6%/2.4% for FY18E/19E. We adjust our costs, pricing and export volume assumptions and our EBITDA estimates are revised downwards by 10.8%/3.3% for FY18E/19E, with steel business EBITDA/t of ~Rs8,606/Rs8,927 (vs. Rs9,250/9,052 earlier).
- Valuation and risks – retain Hold:** JSTL continues to perform strongly with tight conversion costs and solid market positioning but with limited volume growth over the next few years, we expect EBITDA/PAT CAGR of 11.1%/19.5% during FY17-19E. We value JSW at 6x FY19E EV/EBITDA to arrive at our revised TP of Rs190 (vs. Rs185 earlier). Retain Hold. Downside risks are lower volumes and big asset acquisition, while the upside risk is a drop in raw material costs.

Y/E Mar - Cons (Rs mn)	Q4FY17	Q4FY16	YoY(%)	Q4FY17	QoQ(%)	Q4FY17E	Var(%)
Net sales	1,66,562	1,06,084	57.0	1,40,126	18.9	1,62,904	2.2
Raw materials consumed	93,014	55,161	68.6	73,661	26.3	91,628	1.5
Employee cost	4066	3,479	16.9	4,252	(4.4)	4,696	(13.4)
EBITDA	31,649	19,243	64.5	28,669	10.4	29,421	7.6
EBITDA margin (%)	19.0	18.1		20.5		18.1	
Depreciation	8,779	8,280	6.0	9,146	(4.0)	9,072	(3.2)
Interest	9,476	8,559	10.7	9,201	3.0	9,734	(2.7)
PBT	13,953	3,074	353.9	10,655	30.9	10,915	27.8
Tax	3,992	86	4536.1	3,511	13.7	3,602	10.8
Minority interest	0	612		(143)		(150)	
PAT(adj.)	10,086	2,403	319.7	7,301	38.2	7,463	35.1

Source: Company, Centrum Research Estimates

Y/E Mar (Rs bn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS (Rs)	RoE (%)	RoCE (%)	PE (x)	EV/EBITDA (x)
FY15	529.7	3.4	94.0	17.9	18.3	10.8	7.6	8.2	6.6	15.0	6.7
FY16	415.5	(21.6)	64.0	17.7	10.1	(45.0)	4.2	4.4	1.0	23.0	9.7
FY17P	556.0	33.8	121.7	15.4	34.7	244.3	14.3	14.6	9.0	13.5	6.5
FY18E	608.9	9.5	133.7	21.9	40.3	16.2	16.7	15.1	9.1	11.6	6.7
FY19E	646.4	6.2	150.2	22.0	49.5	22.9	20.5	16.4	9.7	9.4	6.0

Source: Company, Centrum Research Estimates

Target Price	Rs190	Key Data			
CMP*	Rs191	Bloomberg Code	JSTL IN		
Downside	0.7%	Curr Shares O/S (mn)	2,417.2		
Previous Target	Rs185	Diluted Shares O/S(mn)	2,417.2		
Previous Rating	Hold	Mkt Cap (Rsbn/USDbn)	462.7/7.1		
Price Performance (%)*		52 Wk H / L (Rs)	209.5/128		
	1M	6M	1Yr		
			5 Year H / L (Rs)	209.4/46.2	
JSTL IN	2.2	13.1	46.2	Daily Vol. (3M NSE Avg.)	5373313
NIFTY	3.6	16.8	19.8		

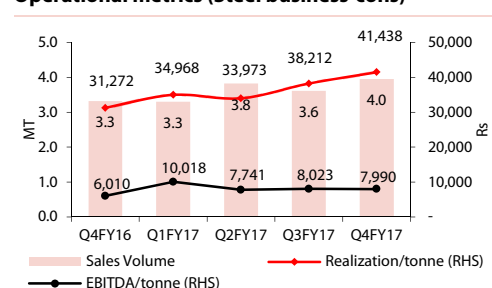
*as on 18 May 2017; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Mar-17	Dec-16	Sep-16	June-16
Promoter	41.6	41.5	41.5	41.5
FII's	20.0	20.3	20.5	20.1
Dom. Inst.	16.3	16.7	16.4	17.0
Public & Others	22.1	21.5	21.6	21.4

Source: BSE, *as on 18 May 2017

Operational metrics (Steel business-cons)



Source: Company, Centrum Research

Earnings Revision

Particulars (Rs bn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	608.9	643.8	(5.4)	646.4	662.7	(2.5)
EBITDA	133.7	149.8	(10.8)	150.2	155.4	(3.3)
EBITDA Margin (%)	22.0	23.3		23.2	23.4	
PAT-adj.	40.3	51.2	(21.3)	49.5	53.9	(8.1)

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs bn)	FY18E			FY19E		
	Centrum	BBG	Chg (%)	Centrum	BBG	Chg (%)
Sales	608.9	638.7	(4.7)	646.4	640.6	0.9
EBITDA	133.7	133.5	0.2	150.2	143.9	4.4
PAT	40.3	41.2	(2.1)	49.5	48.5	2.1

Bloomberg Consensus				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
18	6	9	213	190	(10.7)

*as on 18 May 2017; Source: Bloomberg, Centrum Research Estimates

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Exhibit 1: Sensitivity Analysis (FY18E)

Sensitivity to key variables	% change	% impact on EBITDA	% impact on EPS
Sales volume	1	1.2	2.2
Realization	1	1.8	3.2

Source: Company, Centrum Research Estimates

Exhibit 2: 1 year forward EV/EBITDA chart

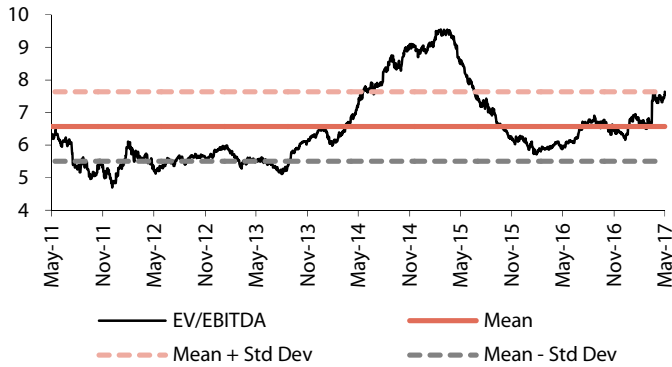
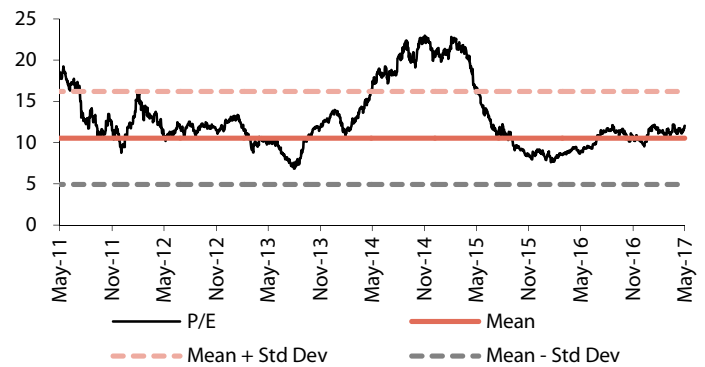


Exhibit 3: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 4: Comparative Valuations

Company	Mkt Cap (USD mn)	CAGR FY17-FY19E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
JSW Steel	7,131	7.8	11.1	19.5	21.9	22.0	23.2	13.3	11.5	9.3	6.5	6.7	6.0	14.6	15.1	16.4	1.4	1.7	2.1
Nucor Corp*	17,905	10.9	27.0	48.1	12.5	16.1	16.3	25.2	12.6	12.1	9.6	6.1	6.5	9.0	17.8	16.4	2.8	2.7	2.7
Baoshan*	19,082	29.7	24.2	29.9	13.3	11.4	12.1	12.5	10.0	8.5	6.1	5.4	5.8	7.0	9.5	8.8	3.4	4.7	5.5
Tata Steel*	7,293.0	4.8	14.4	63.9	12.5	14.2	14.8	19.0	10.5	8.9	8.1	6.9	6.4	6.7	12.9	13.5	2.1	1.9	2.0
SAIL*	3,845.2	13.2	138.9	-	2.4	8.0	10.8	(9.8)	(59.9)	25.8	50.3	14.6	8.8	(5.6)	(0.7)	2.7	2.4	1.7	1.3

Source: *Bloomberg consensus, Centrum Research Estimates, NM-Not meaningful

Exhibit 5: JSW steel EV/EBITDA valuation

(Rs mn)	Mar'19E
EBITDA	1,50,211
Justified EV/EBITDA (x)	6.0
EV	9,01,268
Add: cash	34,913
Less: Debt	4,81,556
Add: JSW energy 5.6% stake at 20% discount to CMP	5,448
Fair Value Mkt Cap (Rsmn)	4,60,074
No. of shares-dil (mn)	2,417
Fair Value/share (Rs)	190

Source: Company, Centrum Research Estimates

Quarterly financials, operating metrics and key performance indicators

Exhibit 6: Quarterly Financials (Cons)

Particulars (Rs mn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Net Sales	1,12,760	1,07,427	86,215	1,03,699	1,15,568	1,29,866	1,37,975	1,62,873
Other Operating Income	1,999	1,642	768	2,385	1,512	2,412	2,151	3,689
Net Sales incl other op. inc.	1,14,759	1,09,069	86,983	1,06,084	1,17,080	1,32,278	1,40,126	1,66,562
(Increase)/Decrease in stock in trade	2,261	4,417	(1,073)	8,212	(8,576)	44	(5,135)	(1,191)
Raw Materials Consumed (Including purchase of traded goods)	61,897	53,978	50,108	46,949	58,058	66,426	78,797	94,205
Employee cost	4,109	4,142	3,682	3,479	4,356	4,322	4,252	4,066
Power & Fuel	10,842	9,810	6,716	8,602	10,879	11,479	12,586	13,884
Other Expenses	18,588	19,429	18,632	19,599	19,669	20,422	20,958	23,949
Operating Profit (Core EBITDA)	17,064	17,293	8,918	19,243	32,694	29,586	28,669	31,649
Depreciation	8,324	6,822	7,734	8,280	8,315	8,915	9,146	8,779
EBIT	8,740	10,471	1,185	10,964	24,380	20,671	19,523	22,870
Interest	9,166	8,363	8,107	8,559	9,358	9,646	9,201	9,476
Other Income	363	390	226	681	334	296	333	558
Other Exceptional Items	7	14	21,221	11	-	-	-	-
Profit Before Tax	(70)	2,483	(27,917)	3,074	15,356	11,320	10,655	13,953
Tax	24	1,424	(18,100)	86	4,507	4,734	3,511	3,992
Profit After Tax	(94)	1,060	(9,817)	2,988	10,848	6,587	7,145	9,961
Less: Minority interest in income	(263)	(132)	(610)	612	(130)	(795)	(143)	-
Add/(Less) - Share in the profit/(loss) of associates	43	(22)	(26)	19	112	(117)	13	125
Profit after Tax attrib. to Cons. group	212	1,170	(9,233)	2,395	11,090	7,265	7,301	10,086
Adjusted PAT for the group	217	1179	5621	2403	11090	7265	7301	10086
Growth (%)								
Net Sales	(13.4)	(21.5)	(34.2)	(15.8)	2.0	21.3	61.1	57.0
EBITDA	(34.7)	(38.0)	(61.2)	14.4	91.6	71.1	221.5	64.5
Adj. PAT	(96.7)	(84.2)	70.9	198.5	5,008.7	515.9	29.9	319.7
Margin (%)								
EBITDA	14.9	15.9	10.3	18.1	27.9	22.4	20.5	19.0
EBIT	7.6	9.6	1.4	10.3	20.8	15.6	13.9	13.7
PAT (reported bef minority interest)	(0.1)	1.0	(11.3)	2.8	9.3	5.0	5.1	6.0
Key Drivers								
Steel sales volumes (MT)	3.1	3.1	2.7	3.3	3.3	3.8	3.6	4.0
Blended Steel Realizations/tonne (excl overseas subsidiaries)	35,659	33,631	31,601	31,272	34,968	33,973	38,212	41,438
Blended Steel EBITDA/tonne (excl overseas subsidiaries)	5,665	5,581	3,469	6,010	10,018	7,741	8,023	7,990

Source: Company, Centrum Research, * Steel Business realizations and EBITDA calculated after deducting contributions from overseas subsidiaries

Exhibit 7: Key Assumptions

Assumptions	FY15	FY16	FY17	FY18E	FY19E
Core Steel Business - Cons					
Steel Sales Volumes - MT	12.1	12.2	14.7	15.5	16.8
Blended Steel Realizations/tonne (excl overseas subs)-Rs	41,706	32,947	37,248	38,589	37,815
Blended Steel EBITDA/tonne (excl overseas subs)-Rs	7,848	5,380	8,331	8,606	8,927

Source: Company, Centrum Research Estimates

Financials (Cons.)

Exhibit 8: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	5,29,715	4,15,462	5,56,046	6,08,890	6,46,371
Materials cost	2,96,860	2,25,468	2,82,627	3,15,487	3,24,777
% of revenues	56.0	54.3	50.8	51.8	50.2
Employee cost	15,328	15,187	16,996	18,610	20,163
% of revenues	2.9	3.7	3.1	3.1	3.1
Others	1,23,504	1,10,797	1,34,681	1,41,123	1,51,220
% of revenues	23.3	26.7	24.2	23.2	23.4
EBITDA	94,023	64,010	1,21,742	1,33,671	1,50,211
EBITDA margin (%)	17.7	15.4	21.9	22.0	23.2
Depreciation & Amortisation	34,345	33,226	34,299	37,900	39,700
EBIT	59,678	30,785	87,444	95,771	1,10,511
Interest expenses	34,930	36,012	37,681	38,404	39,611
PBT from operations	24,748	(5,227)	49,762	57,367	70,901
Other income	1,114	1,805	1,521	1,552	1,583
Exceptional items	471	21,254	-	-	-
PBT	25,391	(24,677)	51,284	58,919	72,484
Taxes	8,194	(19,662)	16,743	18,854	23,195
Effective tax rate (%)	32.3	79.7	32.6	32.0	32.0
PAT	17,197	(5,015)	34,541	40,065	49,289
Minority/Associates	(769)	(208)	(132)	(229)	(228)
Reported PAT	17,966	(4,806)	34,672	40,294	49,517
Adjusted PAT	18,295	10,072	34,672	40,294	49,517

Source: Company, Centrum Research Estimates

Exhibit 9: Key Ratios

Y/E March	FY15	FY16	FY17P	FY18E	FY19E
Growth Ratio (%)					
Revenue	3.4	(21.6)	33.8	9.5	6.2
EBITDA	2.6	(31.9)	90.2	9.8	12.4
Adjusted PAT	10.8	(45.0)	244.3	16.2	22.9
Margin Ratios (%)					
EBITDA	17.7	15.4	21.9	22.0	23.2
PBT from operations	4.7	(1.3)	8.9	9.4	11.0
Adjusted PAT	3.5	2.4	6.2	6.6	7.7
Return Ratios (%)					
ROE	8.2	4.4	14.6	15.1	16.4
ROCE	6.6	1.0	9.0	9.1	9.7
ROIC	6.7	1.0	9.1	9.3	10.0
Turnover Ratios (days)					
Gross block turnover ratio (x)	0.8	0.6	0.7	0.7	0.7
Debtors	17	25	27	30	30
Inventory	76	74	75	79	79
Creditors	98	113	94	93	94
Cash conversion cycle	(5)	(14)	8	15	15
Solvency Ratio (x)					
Net debt-equity	1.5	1.7	1.6	1.5	1.4
Debt-equity	1.7	1.8	1.7	1.6	1.5
Interest coverage ratio	0.6	1.2	0.4	0.4	0.4
Gross debt/EBITDA	4.1	6.3	3.5	3.5	3.2
Current Ratio	1.2	1.1	1.3	1.3	1.4
Per share Ratios (Rs)					
Adjusted EPS	7.6	4.2	14.3	16.7	20.5
BVPS	95.4	92.5	104.2	117.0	132.7
CEPS	21.6	11.8	28.5	32.3	36.9
DPS	1.1	0.8	2.3	3.3	4.1
Dividend payout %	14.8	(37.7)	15.7	20.0	20.0
Valuation (x)(Avg Mkt Cap)					
P/E (adjusted)	15.0	23.0	13.3	11.5	9.3
P/BV	1.2	1.0	1.8	1.6	1.4
EV/EBITDA	6.7	9.7	6.5	6.7	6.0
Dividend yield %	1.0	0.8	1.4	1.7	2.1
5 Yr Avg AOCF/EV yield %	3.7	4.2	3.3	3.5	5.4

Source: Company, Centrum Research Estimates

Exhibit 10: Balance Sheet

Y/E March (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Equity Share Capital	10,672	10,672	10,672	10,672	10,672
Reserves & surplus	2,19,830	2,12,902	2,41,211	2,72,076	3,10,006
Shareholders' fund	2,30,502	2,23,574	2,51,883	2,82,748	3,20,678
Total Debt (incl. pref shares if its thr)	3,85,807	4,01,556	4,31,556	4,61,556	4,81,556
Def tax liab. (net)	28,894	12,338	12,338	12,338	12,338
Minority interest	976	68	68	68	68
Total Liabilities	6,46,179	6,37,536	6,95,845	7,56,710	8,14,640
Gross Block	7,01,889	7,64,785	8,26,785	8,76,785	9,06,785
Less: Acc. Depreciation	1,76,997	2,10,223	2,44,521	2,82,421	3,22,121
Net Block	5,24,892	5,54,563	5,82,264	5,94,364	5,84,664
Capital WIP	80,662	66,652	46,652	76,652	1,26,652
Net Fixed Assets	6,05,553	6,21,214	6,28,915	6,71,015	7,11,316
Investments	5,993	6,184	6,184	6,184	6,184
Inventories	1,10,090	84,034	1,13,950	1,31,272	1,39,444
Sundry debtors	24,998	28,016	41,494	49,227	52,291
Cash	20,637	9,723	16,504	20,930	34,913
Loans & Advances	89,229	79,047	98,331	1,07,808	1,14,518
Total Current Asset	2,44,954	2,00,819	2,70,278	3,09,237	3,41,167
Trade payables	1,42,527	1,28,123	1,43,523	1,55,886	1,65,590
Other current Liab.	63,328	58,830	61,024	68,375	72,631
Provisions	4,466	3,729	4,985	5,466	5,806
Net Current Assets	34,633	10,138	60,745	79,510	97,140
Total Assets	6,46,179	6,37,536	6,95,845	7,56,710	8,14,640

Source: Company, Centrum Research Estimates

Exhibit 11: Cash Flow

Y/E March (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Op profit before WC changes	88,501	62,902	1,21,874	1,33,900	1,50,439
Changes in working capital	(2,324)	6,036	(43,827)	(14,338)	(3,647)
Cash flow from operations	78,757	67,036	61,304	1,00,707	1,23,598
Adj. OCF (OCF - Interest)	43,826	31,024	23,623	62,303	83,987
Net Capex	65,134	51,748	42,000	80,000	80,000
Adj. FCF	(21,308)	(20,724)	(18,377)	(17,697)	3,987
Cash flow from investments	(73,700)	(42,801)	(40,479)	(78,448)	(78,417)
Cash flow from financing	(1,691)	(27,752)	(14,044)	(17,833)	(31,198)
Net change in cash	3,365	(3,518)	6,781	4,426	13,983

Source: Company, Centrum Research Estimates

Appendix A

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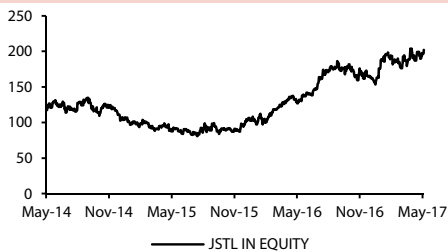
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JSW Steel price chart



Source: Bloomberg, Centrum Research

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