

Export driven performance

CMP:	Rs.930
Target Price:	Rs.968
Recommendation:	Neutral

Stock Info

BSE Group	A/BSE100
BSE Code	500228
NSE Symbol	JSWSTEEL
Bloomberg	JSTLIN
Reuters	JSTL.BO
BSE Sensex	20684
NSE Nifty	6126

Market Info

Market Capital	₹ 22663cr
Equity Capital	₹ 242cr
Avg. Trading Vol. (NSE Qtly)	2594730
52 Wk High/ Low	1047/452
Face Value	10

Shareholding Pattern (%) (30th Sept 2013)

Promoters	37.3
Domestic Institutions	4.9
Foreign Institutions	18.6
Non Promoters Corp.	5.3
Public & Others	33.9
Govt. Holdings	-

JSW Steel's 3QFY14 numbers came largely in line with estimates. Company continues to perform exceedingly well on export front as it reported 1.04mn tonne of exports during the quarter. This has helped company to tie over weak domestic demand. Saleable steel volumes declined 1.6% qoq to 3.08tonnes, while blended realisation rose 5.4% qoq to Rs 38089 per tonne. However, topline includes ~Rs 200cr of hedging gains and after adjusting for it NSR would have been higher by 3.6% qoq.

Raw material cost per tonne increased qoq by Rs 1007 per tonne due to increase in iron ore cost which increased Rs 330 per tonne qoq. Other expenditure too increased due to Rs ~200cr of hedging cost. Effectively, Adjusted EBITDA margin came in at 19.6% against 19.4% reported during 2QFY14. Implied EBITDA per tonne during the quarter came in at Rs 7478 per tonne which was lower than our estimate of Rs 7564 per tonne. Adjusted consolidated EBITDA margins stood at 18.0%. Company reported standalone PAT of Rs 652cr and consolidated PAT of Rs 466cr. Consolidated PAT came lower than estimate due to higher tax incidence.

Other units:

JSW Steel Coated products Ltd

Net sales came in at Rs 2445cr. Sales volumes increased 7.7% qoq to 0.42mn tonnes implying blended realisation of Rs 58215 per tonne (up 1.6% qoq). EBITDA for the quarter was at Rs 79cr, implying EBITDA margin and EBITDA per tonne of 3.2% and Rs 1887 per tonne, respectively.

US Plate and Pipe mill

Total sales volumes increased 23% yoy to 105183 tonnes that includes 85774 tonne of plates and 19409 tonnes of pipes. EBITDA for the quarter came in negative at \$1.73mn.

Chilean iron ore mines

Operating performance improved during the quarter with 13% qoq increase in iron ore production to 0.243mn tonnes. Sales increased 5.2% qoq to 0.23mn tonnes. Blended realisation was 1.8% lower qoq at \$ 118 per tonne. EBITDA for the quarter stood at \$5.2mn.

(Rs Cr)	FY12	FY13	FY14E	FY15E
Net Revenue	34137	38112	48675	51456
EBITDA	5871	6406	8995	9524
EBITDA%	17.2	16.8	18.5	18.5
Reported PAT	538	963	1702	2104
Reported EPS	24	43	70	87
EPS Growth (%)	-69.3	79.1	63.1	23.6
RONW (%)	3	6	10	12
P/E (x)	38.6	21.5	13.2	10.7
EV/EBITDA (x)	7.8	7.6	6.2	5.9

Jan 29, 2014



Concall Update:

- JSW continues to do exceedingly well on export front with share of export revenues moving up qoq from 20% to 24%. Company exported 1.04mn tonne of steel with major focus on export of value added steel.
- Company has enough iron ore inventory to operate at current utilization level till June-14. Management is confident of improvement in iron ore sourcing through opening of new mines and increase in production capacity of existing mines.
- Blended iron ore cost increased by Rs 330 per tonne.
- Company has revised its capex upward for FY14 to Rs 5500cr from Rs 4000cr earlier. FY15 capex maintained at Rs 4000cr.
- Company commissioned pickling cum coupled tandem cold rolling mill facility during 3QFY14. Other projects i.e CAL and Galvanising line, electrical steel complex at Vijayanagar and pellet and coke oven facilities at Dolvi are expected to get commissioned over next 3-4 months.
- Net debt increased to Rs 32296cr from Rs 30372cr (2QFY14) on higher working capital requirement owing to increased credit limit given to customers.

Valuations:

JSW Steel continues to post strong performance despite faced with challenging operating environment. We are confident of company achieving FY14 volume guidance of ~11.6mn tonnes. At CMP of Rs 930 per share, the stock is trading at P/E(x) and EV/EBITDA(x) of 11.0x and 5.9x respectively at which stock, post recent run-up, looks fairly valued in our view. We have upped our EV/EBITDA(x) for standalone operations to 6.0 from 5.5x earlier sighting stable margin profile on account of completion of ongoing capex at Vijayanagar and Dolvi units. Our target price for JSW steel comes at Rs 968 per share implying 4% upside from current levels. Recommend Neutral rating on the stock. Risks to our call are slower than expected scaling up of iron ore mining operations in Karnataka and clampdown on iron ore mining in Orissa.



3QFY14 Results (Consolidated)

Rs in Crore	3QFY14*	3QFY13	YOY (%)	2QFY14*	QoQ (%)
Net Sales	13623	8888	53.3	12984	4.9
Expenditure	11213	7557	48.4	10636	5.4
EBITDA	2409	1331	81.0	2348	2.6
EBITDA Margins (%)	17.7	15.0		18.1	
Other Income	14	8	75.7	51	-71.7
Interest	789	517	52.8	756	4.4
Depreciation	806	563	43.2	803	0.4
Exceptional Items (Loss)	0	268	-100.0	851	-100.0
PBT after exceptional items	829	-9	-	-11	-
Tax	374	-17	-	119	-
Tax rate (%)	45%	201%		14%	
Minority Interest	-9	-16	-	-10	-
Share of Associate	2	-99	-	4	-42.2
Reported PAT	466	-74	-	-116	-
Adj PAT	466	106	339.4	452	3.2
Adj NPM (%)	3.4	1.2		3.5	
Adj EPS (Rs)	21	5	339.4	20	3.2

Note: * yoy numbers are not comparable due to merger with JSW Ispat.



Profit & Loss Statement (Consolidated)

Y/E March (Rs Cr)	FY12	FY13	FY14E	FY15E
Net Sales	34137	38112	48675	51456
% Chg	43	12	28	6
Total Expenditure	28266	31706	39680	41932
% chg	47	12	25	6
EBITDA	5871	6406	8995	9524
EBITDA Margin %	17.2	16.8	18.5	18.5
Other Income	308	167	146	206
Depreciation	1933	2237	3179	3322
EBIT	4246	4336	5962	6408
Interest	1427	1967	3120	3078
PBT bfr excep Items	2818	2369	2842	3330
Exceptional Items	825	369	0	0
PBT after EI	1993	1999	2842	3330
Tax Provisions	500	845	1128	1232
PAT before MI	1493	1154	1714	2098
MI & share of Asso	-918	-260	12	-6
Reported PAT	538	963	1702	2104
PAT %	1.6	2.5	3.5	4.1

Balance sheet (Consolidated)

Y/E March (Rs Cr)	FY12	FY13	FY14E	FY15E
Shareholder's funds	563	563	1068	1068
Reserves and Surplus	16186	16781	15903	17743
Minority Interest	218	197	209	202
Non-current liabilities	16438	21522	28802	28116
Long-term borrowings	12889	17393	24520	23804
Deferred Tax	3041	3487	3487	3487
Other Long term	472	600	753	784
Long-term prov	35	41	41	41
Current liabilities	20834	18665	20352	19894
Equity + Liability	54238	57728	66334	67024
Net Fixed assets	32568	33402	41108	44987
CWIP	2832	5898	5845	3195
Goodwill	1244	1314	1625	1625
Non-current Assets	1886	1606	323	323
Deferred tax assets (net)	316	215	215	215
Long-term loans and Adv.	2818	3342	4186	4283
Other non-current assets	14	16	16	16
Current assets	12561	11934	12995	12368
Assets	54238	57728	66334	67024

Cash Flow Statement (Consolidated)

Y/E March (Rs Cr)	FY12	FY13	FY14E	FY15E
PBT	1993	1999	2842	3330
Oper. Profit before Work. Cap.	4982	5766	8995	9524
Changes in WC	-1062	589	-618	-363
Cash generated from Ops	3920	6355	8377	9160
Direct Tax Paid	-407	-511	-1128	-1232
Net Cash From Oper. Act	3512	5844	7249	7928
Net Cash From Investing Act	-4101	-5433	-7620	-10483
Cash flow from Financing Act	698	-791	-382	1760
Net increase in cash & Equiv	110	-380	-753	-795
Opening Cash Balance	573	683	1653	900
Closing Cash Balance	3047	1653	900	105

Key Ratios (Consolidated)

Y/E March (Rs Cr)	FY12	FY13	FY14E	FY15E
Per Share data (Rs)				
EPS	24	43	70	87
Cash EPS	111	143	202	224
DPS	7.5	10.0	10.0	10.0
Book value	751	777	702	778
Operating, Returns Ratio				
Debt/ Equity (X)	1.6	1.7	2.1	1.8
Current Ratio (X)	0.6	0.6	0.6	0.6
RoE (%)	3	6	10	12
RoCE (%)	9	7	9	10
Dividend Yield (%)	0.8	1.1	1.1	1.1
Valuation Ratio (X)				
P/E	38.6	21.5	13.2	10.7
P/BV	1.2	1.2	1.3	1.2
EV/ Sales	1.3	1.3	1.1	1.1
EV/EBITDA	7.8	7.6	6.2	5.9

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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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