

Subsidiaries and associates continues to be a drag

CMP:	Rs.806
Target Price:	Rs 801
Recommendation:	Reduce

Stock Info

BSE Group	A/BSE100
BSE Code	500228
NSE Symbol	JSWSTEEL
Bloomberg	JSTLIN
Reuters	JSTL.BO
BSE Sensex	19461
NSE Nifty	5898

Market Info

Market Capital	₹ 17954cr
Equity Capital	₹ 223cr
Avg. Trading Vol. (NSE Qtly)	2594730
52 Wk High/ Low	894/566
Face Value	10

Shareholding Pattern (%) (31th Dec. 2012)

Promoters	38.1
Domestic Institutions	5.8
Foreign Institutions	19.3
Non Promoters Corp.	4.9
Public & Others	31.9
Govt. Holdings	-



Feb 13, 2013

JSW steel reported consolidated loss of Rs 74cr during the quarter compared to profit of 691cr last year. Loss is also higher qoq due to losses at US steel and Chile iron ore operations. US steel operation reported its first loss in last eight quarters at \$ 0.8mn, while Chilean operation reported net loss of \$2.52mn. Bottom-line was also impacted by losses at JSW Ispat. JSW Ispat reported net loss of Rs 76cr during the quarter.

On operating front volumes of US operations jumped 9% qoq to 85,365 tonnes, while utilization levels remain flat at 33% for plate mill and 16% for pipe mill. Blended realisations dipped 18% qoq to \$917/tonne.

Chilean iron operations witnessed jump in dispatches at 2,20,833 tonnes when compared to 1,47,734 tonne during 2QFY13. In sync with fall in iron ore prices globally, blended iron ore realisation dipped 10% qoq to \$99/tonne. EBITDA during the quarter came in negative at \$ 0.82mn.

JSW Ispat showed marked improvement in its operating performance. HR Coil volumes jump 12% yoy and qoq to 0.67mn tonne and value added products sales jumped 12.5% yoy and qoq to 0.09mn tonnes. Blended realizations dipped 7% qoq to Rs 35242/tonne. However, decline in operating cost resulted in 70bps qoq jump in EBITDA margins at 4.7%. EBITDA/tonne during the quarter came in at Rs 1698/tonne compared to Rs 1581/tonne during 2QFY13.

Valuations:

JSW steel has consistently been delivering stable operating performance on standalone basis, however, subsidiaries and associate companies continues to remain a drag on its profitability. Going into FY14, iron ore sourcing is going to be the key and we expect JSW steel to tide over the same. Also, weakness in coking coal prices and improvement in steel prices globally, augers well for the company. Further, we likely to see FY15 to be a turnaround year for the company, as ongoing capacity expansion and efficiency improvement measures start contributing big way to earnings. Stock has gained more than 20% in recent times and has achieved our target price of Rs 801 in the interim. **Post recent run up in the stock we change our recommendation from Hold to Reduce and maintain target price of Rs 801 per share.**

(Rs Cr)	FY12	FY13E	FY14E	FY15E
Net Revenue	34137	37648	39381	42112
EBITDA	5871	6259	6957	7860
EBITDA%	17.2	16.6	17.7	18.7
Reported PAT	538	1313	1691	2029
Reported EPS	24	59	76	91
EPS Growth (%)	2.5	-27.0	28.8	19.9
RONW (%)	3	7	9	10
P/E (x)	33.4	13.7	10.6	8.9
EV/EBITDA (x)	7.3	7.3	6.5	5.7



JSW Steel (mt)	3QFY13	3QFY12	yoy %	2QFY13	qoq%
Semis	0.08	0.1	-11%	0.11	-27%
Flat	1.66	1.44	15%	1.66	0%
Long	0.43	0.36	18%	0.4	6%
Value added	0.37	0.41	-25%	0.42	-13%
Total Volumes	2.17	1.9	14%	2.17	0%
Realisations	38133	41193	-7.4%	40708	-6%
EBITDA/t (Rs/t)	6054	6565		7028	

US Operations (tonnes)	3QFY13	3QFY12	yoy %	2QFY13	qoq%
Production-Plate Mill	79,803	65956	21%	79,172	1%
Pipe Mill	21,477	17785	21%	29,479	-27%
Volumes - Plate Mill	65,396	66,309	-1%	53875	21%
Pipe Mill	19969	17443	14%	24,590	-19%
Total Volumes	85365	83752	1.9%	78465	8.8%
Realisations (\$/t)	917	1123	-18%	1,118	-18%
EBITDA/t (\$/t)	-9	43		37	

Chile mine (tonnes)	3QFY13	3QFY12	yoy %	2QFY13	qoq%
Production	194158	191432	1%	170744	14%
Sales Volumes	220833	148040	49%	147734	49%
Blended realisations	99	136	-27%	110	-10%
EBITDA/T	-3.7	19.4		-0.5	

JSW Ispat (mt)	2QFY13	2QFY12	yoy %	1QFY13	qoq%
Sales Volumes	0.76	0.68	11.8%	0.67	13.4%
Realisations (Rs/t)	35242	39213	-7.3%	38015	-10.1%
EBITDA/t (Rs/t)	1698	3648	-53%	1581	7.4%

Note: Financial year ending June



3QFY13 Results (Consolidated)

Rs in Crore	3QFY13	3QFY12	YOY (%)	2QFY13	QoQ (%)
Net Sales	8866	8405	5.5	9475	-6.4
Expenditure	7557	7101	6.4	7982	7556.9
EBITDA	1331	1323	0.6	1531	-13.1
EBITDA Margins (%)	15.0	15.7		16.1	
Other Income	8	23	-63.7	28	-70.2
Interest	517	379	36.4	483	7.0
Depreciation	563	502	12.2	547	2.9
Exceptional Items (Loss)	268	504	-46.7	-424	-
PBT after exceptional items	-9	-39	-	953	-
Tax	-17	-131	-	336	-
Tax rate (%)	-	-		35%	
MI	-16	-7	-	-13	-
Share of Associate	-99	-147	-	61	-
PAT	-74	-48	-	691	-
Net Profit Margin (%)	-0.8	-1		7	
EPS (Rs)	-3	-2	53.9	31	-110.7

Valuations

FY14E (Rs cr)	EV/EBITDA(x)	EBITDA	EV
JSW Steel-Standalone	5.5	6654	36596
JSW Ispat	4.5	843	3793
JSW-USA	4.0	183	730
JSW-Chile	4.0	120	481
Total EV			41600
less Net Debt			26776
add CWIP			3513
less Pref. Capital			279
Less Minority Interest			236
Implied Market Cap			17822
No. of shares (cr)			22
Fair Value (Rs/share)			801



Profit & Loss Statement (Consolidated)				
Y/E March (Rs Cr)	FY12	FY13E	FY14E	FY15E
Net Sales	34137	37648	39381	42112
% Chg	43	10	5	7
Total Expenditure	28266	31389	32424	34252
% chg	47	11	3	6
EBITDA	5871	6259	6957	7860
EBITDA Margin %	17.2	16.6	17.7	18.7
Other Income	308	174	182	193
Depreciation	1933	2186	2357	2739
EBIT	4246	4247	4782	5313
Interest	1427	1949	2101	2240
PBT bfr excep Items	2818	2298	2681	3073
Exceptional Items	825	0	0	0
PBT after EI	1993	2298	2681	3073
Tax Provisions	500	748	869	987
PAT before MI	1493	1550	1812	2086
MI & share of Asso	-956	-237	-120	-58
Reported PAT	538	1313	1691	2029
PAT %	1.6	3.5	4.3	4.8

Balance sheet (Consolidated)				
Y/E March (Rs Cr)	FY12	FY13E	FY14E	FY15E
Shareholder's funds	563	563	563	563
Reserves and Surplus	16186	17559	19029	20835
Minority Interest	218	218	236	257
Non-current liabilities	16438	19440	19904	18729
Long-term borrowings	12889	15773	16220	14921
Deferred Tax	3041	3041	3041	3041
Other Long term	472	591	608	732
Long-term prov	35	35	35	35
Current liabilities	20825	18237	18386	18920
Equity + Liability	54230	56018	58117	59305
Net Fixed assets	32568	34396	35552	40762
CWIP	2832	3543	4755	1755
Goodwill	1244	1244	1244	1244
Non-current Assets	1886	2517	1996	1543
Deferred tax assets (net)	316	316	316	316
Long-term loans and Adv.	2603	2614	2613	2493
Other non-current assets	14	14	14	14
Current assets	12767	11374	11628	11178
Assets	54230	56018	58117	59305

Cash Flow Statement (Consolidated)				
Y/E March (Rs Cr)	FY12	FY13E	FY14E	FY15E
PBT	1993	2298	2681	3073
Oper. Profit before Work. Cap.	5046	6259	6957	7860
Changes in WC	2777	-4166	-72	763
Cash generated from Ops	7823	2093	6885	8623
Direct Tax Paid	175	-748	-869	-987
Net Cash From Oper. Act	7998	1345	6016	7636
Net Cash From Investing Act	-4903	-5419	-4123	-4221
Cash flow from Financing Act	-2084	1342	-1814	-3566
Net increase in cash & Equiv	1011	-2731	78	-151
Opening Cash Balance	2036	3047	316	394
Closing Cash Balance	3047	316	394	243

Key Ratios (Consolidated)				
Y/E March (Rs Cr)	FY12	FY13E	FY14E	FY15E
Per Share data (Rs)				
EPS	24	59	76	91
Cash EPS	111	157	181	214
DPS	7.5	7.5	7.5	7.5
Book value	751	812	878	959
Operating, Returns Ratio				
Debt/ Equity (X)	1.6	1.5	1.4	1.2
Current Ratio (X)	0.6	0.6	0.6	0.6
RoE (%)	3	7	9	10
RoCE (%)	9	8	8	9
Dividend Yield (%)	0.9	0.9	0.9	0.9
Valuation Ratio (X)				
P/E	33.4	13.7	10.6	8.9
P/BV	1.1	1.0	0.9	0.8
EV/ Sales	1.3	1.2	1.2	1.1
EV/EBITDA	7.3	7.3	6.5	5.7



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Stock Rating Scale

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

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