

Strong quarter

27 Oct, 2014

CMP: Rs.1,205
Target Price: Rs.1,426
Recommendation: Accumulate

Stock Info

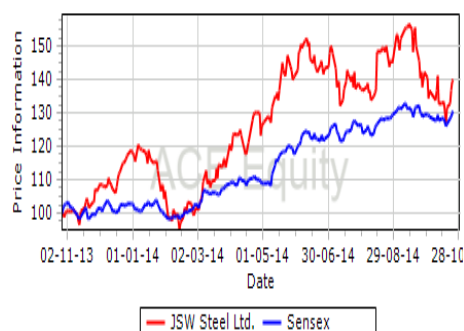
BSE Group	A/BSE100
BSE Code	500228
NSE Symbol	JSWSTEEL
Bloomberg	JSTLIN
Reuters	JSTL.BO
BSE Sensex	26,851
NSE Nifty	8,015

Market Info

Market Capital	Rs 29,130cr
Equity Capital	Rs 242cr
Avg. Trading Vol. (NSE Qtly)	7,31,440
52 Wk High/ Low	1,365/805
Face Value	10

Shareholding Pattern (%) (Sep 2014)

Promoters	39.3
Domestic Institutions	3.7
Foreign Institutions	20.4
Public & others	36.6



JSW Steel's Q2FY15 numbers were above expectations on account of higher proportion of value added products which increased to 33% vs. 29% sequentially. Export volumes decreased by 6.3% to 0.79mn tonnes whereas domestic volumes were almost flat at 2.31mn tonnes compared to 2.30mn tonnes. Thus overall volumes declined marginally to 3.10mn tonnes compared to 3.14mn tonnes on YoY basis.

On a consolidated basis blended realizations increased to Rs 47,933 vs. Rs 44,159 on YoY basis. Raw material cost decreased marginally by Rs 291 per tonne on YoY basis due to soft iron ore prices. However, power and fuel cost increases by Rs 360 per tonne on YoY basis. EBITDA margins improved to 20.1% from 18.1% on YoY basis. EBITDA per tonne was at Rs. 9,004 per tonne vs. Rs.7,478 on YoY basis. Increase in blended realizations is partly attributed to increased share of value added products which increased to 33% from 23% on YoY basis.

Company reported standalone PAT of Rs 762cr and consolidated PAT of Rs 749cr.

Other units:

JSW Steel Coated products Ltd

Volumes increased by 5% on YoY basis to 0.41mn tonnes. Sales increased by 13.6% on YoY basis to Rs. 2,537cr implying blended realization of Rs 61,880 per tonne. EBITDA for the quarter increased by 38.1% on YoY basis to Rs 108cr. PAT was Rs. 10.9cr vs. Rs. 0.4cr on YoY basis.

US Plate and Pipe mill

Total sales volumes increased by 16% yoy to 1,02,725 tonnes, which includes 86,084 tonne of plates and 16,641 tonnes of pipes. EBITDA for the quarter came in at \$ 2.54mn.

Chilean iron ore mines

Operating performance was stable during the quarter with 4.2% increase in iron ore production on YoY basis to 0.22mn tonnes. Sales increased marginally by 0.7% on YoY basis to 0.22mn tonnes. Realization was lower by 31.5% on YoY basis at \$ 82.5 per tonne as international iron ore prices remained soft during the year. EBITDA for the quarter stood at negative \$1.76mn.

Valuations: JSW Steel continues to post strong performance in challenging operating environment. At CMP of Rs 1,205 per share, the stock is trading at FY16E P/E(x) and EV/EBITDA(x) of 8.0x and 5.7x respectively. We have valued the company at 6.0x FY16E EV/EBITDA and have arrived at the price target of Rs 1,426. We recommend **Accumulate** rating on the stock.



Financial snapshot

(Rs Cr)	FY13	FY14	FY15E	FY16E
Net Revenue	38,112	51,220	54,291	59,325
EBITDA	6,406	9,165	11,082	12,836
EBITDA%	16.8	17.9	20.4	21.6
PAT	1,209	1,594	3,238	4,010
EPS	54	66	134	166
PAT Growth (%)	(32.7)	31.8	103.2	23.9
RONW (%)	7.1	8.1	13.9	15.3
P/E (x)	22.2	18.3	9.0	7.3
EV/EBITDA (x)	7.2	6.5	6.4	5.6

Source: - Company data, Arihant Research

2QFY15 Results (Consolidated)

Rs in Crore Consolidated	2QFY15	2QFY14	YOY (%)	1QFY15	QoQ (%)
Net Sales	13,895	12,984	7.0	13,254	4.8
Expenditure	11,104	10,636	4.4	10,642	4.3
EBITDA	2,791	2,348	18.9	2,612	6.9
EBITD Margins (%)	20.1	18.1		19.7	
Other Income	26	51		54	
Interest	855	756		844	
Depreciation	851	803		795	
Exceptional Items (Loss)	-	851		-	
PBT after exceptional items	1,112	(11)	NA	1,026	8.3
Tax	374	119		383	
Tax rate (%)	34	NA		37	
Minority Int	(13)	(10)		(9)	
Share of Associate	(2)	4		4	
Reported PAT	749	(116)	NA	656	14.1
Adj PAT	749	452	65.7	656	14.1
Adj NPM (%)	5	3		5	
Adj EPS (Rs)	33.6	20.3	65.7	29.4	14.1

Source: - Company data, Arihant Research



Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Net Sales	38,112	51,220	54,291	59,325
YoY%	11.6	34.4	6.0	9.3
Income from Operations	38,112	51,220	54,291	59,325
Materials Consumed	24,146	30,118	30,875	33,387
Total Expenditure	31,706	42,054	43,210	46,489
Operating EBITDA	6,406	9,165	11,082	12,836
Operating EBITDA margin %	16.8	17.9	20.4	21.6
Depreciation	2,237	3,183	3,891	4,342
Operating EBIT	4,169	5,983	7,191	8,495
Other Income	167	86	217	237
Interest	1,967	3,048	2,941	3,067
PBT before Excp Items	2,369	3,021	4,467	5,664
Exceptional item	123	571	-	-
PBT	2,246	2,450	4,467	5,664
Tax Expense	845	920	1,241	1,659
Minority interest/share of asc	(191)	64	12	5
Reported Net Profit	1,209	1,594	3,238	4,010
YoY%	(32.7)	31.8	103.2	23.9
Effective Tax Rate	37.6	37.6	27.8	29.3
Reported EPS	54	66	134	166

Balance Sheet, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Liabilities + Equity				
(a) Share capital	563	1,067	1,067	1,067
(b) Reserves and surplus	16,781	20,871	23,518	26,810
Shareholders' funds	17,344	21,938	24,586	27,877
Minority interest	197	167	167	167
Non-current liab & Prov	21,522	29,796	39,203	42,090
Current liabilities	18,665	25,739	28,195	32,126
Total - Equity and liabilities	57,728	77,640	92,151	1,02,260
Assets				
Non-current assets				
Fixed assets	40,615	56,446	66,671	72,577
Long Term Inv	1,606	595	595	595
Loans + Adv + Others	3,573	5,149	6,518	6,899
Total non current assets	45,794	62,190	73,784	80,071
Current assets				
Cash	1,653	663	772	3,261
Other Current Assets	10,280	14,787	17,595	18,928
Sub-total - Current assets	11,934	15,450	18,367	22,190
Total - Assets	57,728	77,640	92,151	1,02,260

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Operating Activities				
PBT	1,999	1,308	4,467	5,664
Add Depr	2,237	3,183	3,891	4,342
Others	1,529	2,026	(12)	(5)
Total	5,766	6,517	8,346	10,001
Cash Taxes	(511)	(404)	(1,241)	(1,659)
Changes in Working Cap	589	(3,520)	(4,204)	(1,332)
Cash Flow from Operations	5,844	2,594	2,901	7,009
Investing Activities				
Change in investments/LT adv	185	73	2,693	3,772
Capex	(5,618)	(5,744)	(14,116)	(10,248)
Cash Flow from Investing	(5,433)	(5,671)	(11,423)	(6,475)
Financing Activities				
Dividends + Taxes paid	(227)	(315)	(777)	(932)
Change in Non Curr Liab	(564.0)	3,615.9	9,407.8	2,887.0
Cash Flow from Financing	(791)	3,300	8,631	1,955
Opening Cash	2,033.5	352.9	663.0	772.3
Changes during year	(380.1)	222.7	109.3	2,489.2
Closing Cash	1,653.4	663.0	772.3	3,261.5

Ratio Analysis

	FY13	FY14	FY15 E	FY16 E
Profitability				
Operating EBITDA%	16.8	17.9	20.4	21.6
Operating EBIT%	10.9	11.7	13.2	14.3
PAT%	3.2	3.1	6.0	6.8
Du Pont ROAE breakup				
PAT / Sales	3.2	3.1	6.0	6.8
Sales / Avg Total Assets	0.7	0.8	0.6	0.6
Avg Total Assets / Avg Eqty	0.3	0.3	0.3	0.3
ROE	7.1	8.1	13.9	15.3
Other Ratios				
Current Ratio	0.6	0.6	0.7	0.7
Long Term Debt / Equity	1.0	1.2	1.5	1.4
EPS	54.2	65.9	134.0	165.9
DPS	11.3	13.1	32.1	38.5
Dividend Payout ratio	12.4	6.2	4.0	3.4
P/E	22.2	18.3	9.0	7.3
BVPS	777.3	907.6	1,017.1	1,153.3
P/BV	1.6	1.3	1.2	1.0

Source: Company data, Arihant Research



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Stock Rating Scale

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

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