

Weak quarter

3rd Feb, 2015

CMP: Rs.998
Target Price: Rs.1,200
Recommendation: BUY

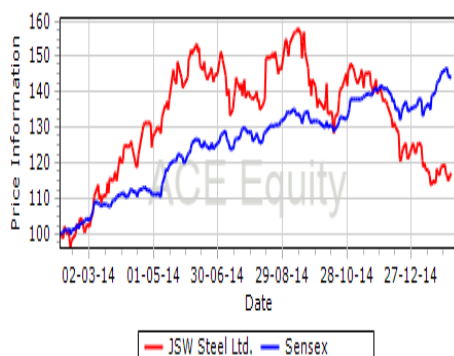
Stock Info

BSE Group	A/BSE100
BSE Code	500228
NSE Symbol	JSWSTEEL
Bloomberg	JSTLIN
Reuters	JSTL.BO
BSE Sensex	29,122
NSE Nifty	8,797

Market Info

Market Capital	Rs 24,127cr
Equity Capital	Rs 242cr
Avg. Trading Vol. (NSE Qtly)	6,57,930
52 Wk High/ Low	1,365/805
Face Value	10

Shareholding Pattern (%)	(Dec 2014)
Promoters	39.6
Domestic Institutions	4.0
Foreign Institutions	19.9
Public & others	36.5



JSW Steel's Q3FY15 numbers were below expectations on account of lower realisations and higher other expenses. Realisations were lower on account of dumping of steel from Russia, China, Korea and Japan. Total saleable steel volume stood at 3.03 down 1.7% on YoY basis. Share of exports reduced from 34% to 29% on YoY basis, however on QoQ basis it increased from 25% in last quarter.

On a consolidated basis blended realizations decreased marginally from Rs 46,615 to Rs 46,337 on YoY basis. Raw material cost decreased by Rs 2,403 per tonne on YoY basis due to soft international iron ore and coking coal prices. However, power and fuel cost increases by Rs 192 per tonne on YoY basis. EBITDA margins declined from 17.7% to 17.4%. EBITDA per ton was at Rs. 7,584 per ton down from Rs.7,823 on YoY basis.

Company reported standalone PAT of Rs 415 cr and consolidated PAT of Rs 329 cr.

Other units:

JSW Steel Coated products Ltd

Volumes decreased by 12% on YoY basis to 0.37mn tonnes. Sales decreased by 7.2% on YoY basis to Rs. 2,152 cr implying blended realization of Rs 61,351 per tonne. EBITDA for the quarter decreased by 18.0% on YoY basis to Rs 65 cr. Net loss for the quarter stood at Rs 18 crs against profit of Rs 12.5 crs on YoY basis.

US Plate and Pipe mill

Total sales volumes decreased by 22% yoy to 0.082 mn tonnes, which includes 0.064 mn tonnes of plates and 0.018 mn tonnes of pipes. EBITDA loss for the quarter stood at \$ 0.46mn.

Chilean iron ore mines

Operating performance deteriorated during the quarter with 9.5% decrease in iron ore production on YoY basis to 0.22mn tonnes. Sales increased marginally by 0.7% on YoY basis to 0.22mn tonnes. EBITDA loss for the quarter stood at \$6.5mn.

Valuations: JSW Steel performance during the quarter was below par due to challenging operating environment. However, we are confident of long term prospects of the company. At CMP of Rs 998 per share, the stock is trading at FY16E P/E(x) and EV/EBITDA(x) of 8.3x and 5.1x respectively. We have valued the company at 5.5x FY16E EV/EBITDA and have arrived at the price target of Rs 1,200. We recommend **BUY** rating on the stock.

Financial snapshot

(Rs Cr)	FY13	FY14	FY15E	FY16E
Net Revenue	38,112	51,220	52,955	57,832
EBITDA	6,406	9,165	9,745	11,343
EBITDA%	16.8	17.9	18.4	19.6
PAT	1,209	1,594	2,247	2,890
EPS	54	66	93	120
PAT Growth (%)	(32.7)	31.8	41.0	28.6
RONW (%)	7.1	8.1	9.8	11.6
P/E (x)	18.4	15.1	10.7	8.3
EV/EBITDA (x)	5.5	5.0	5.9	5.1

Source: - Company data, Arianth Research



3QFY15 Results (Consolidated)

Rs in Crore Consolidated	3QFY15	3QFY14	YOY (%)	2QFY15	QoQ (%)
Net Sales	13,223	13,623	-2.9	13,895	-4.8
Expenditure	10,927	11,213	-2.6	11,104	-1.6
EBITDA	2,296	2,409	-4.7	2,791	-17.8
EBITD Margins (%)	17.4	17.7		20.1	
Other Income	13	14		26	
Interest	937	789		855	
Depreciation	890	806		851	
Exceptional Items (Loss)	-	-		-	
PBT after exceptional items	482	829	-41.8	1,112	-56.6
Tax	175	374		374	
Tax rate (%)	36	45		34	
Minority Int	(22)	(9)		(13)	
Share of Associate	1	2		(2)	
Reported PAT	329	466	-29.5	749	-56.1
Adj PAT	329	466	-29.5	749	-56.1
Adj NPM (%)	2.5	3.4		5.4	
Adj EPS (Rs)	13.6	19.0	-28.2	30.6	-55.6

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	52,955	57,832
YoY%	11.6	34.4	3.4	9.2
Income from Operations	38,112	51,220	52,955	57,832
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	9,745	11,343
Operating EBITDA margin %	16.8	17.9	18.4	19.6
Depreciation	2,237	3,183	3,891	4,342
Operating EBIT	4,169	5,983	5,855	7,001
Other Income	167	86	212	231
Interest	1,967	3,048	3,035	3,184
PBT before Excp Items	2,369	3,021	3,032	4,048
Exceptional item	123	571	-	-
PBT	2,246	2,450	3,032	4,048
Tax Expense	845	920	796	1,163
Minority interest/share of asc	(191)	64	12	5
Reported Net Profit	1,209	1,594	2,247	2,890
YoY%	(32.7)	31.8	41.0	28.6
Effective Tax Rate	37.6	37.6	26.3	28.7
Reported EPS	54	66	93	120

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	22,677	25,016
Shareholders' funds	17,344	21,938	23,745	26,083
Minority interest	197	167	167	167
Non-current liab & Prov	21,522	29,796	39,703	42,590
Current liabilities	18,665	25,739	27,941	31,962
Total - Equity and liabilities	57,728	77,640	91,556	1,00,802
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	6,408	6,775
Total non current assets	45,794	62,190	73,674	79,947
Current assets				
Cash	1,653	663	351	1,909
Other Current Assets	10,280	14,787	17,531	18,856
Sub-total - Current assets	11,934	15,450	17,882	20,766
Total - Assets	57,728	77,640	91,556	1,00,713

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Operating Activities				
PBT	1,999	1,308	3,032	4,048
Add Depr	2,237	3,183	3,891	4,342
Others	1,529	2,026	(12)	(5)
Total	5,766	6,517	6,911	8,384
Cash Taxes	(511)	(404)	(796)	(1,163)
Changes in Working Cap	589	(3,520)	(4,204)	(1,332)
Cash Flow from Operations	5,844	2,594	1,910	5,889
Investing Activities				
Change in investments/LT adv	185	73	2,583	3,759
Capex	(5,618)	(5,744)	(14,116)	(10,248)
Cash Flow from Investing	(5,433)	(5,671)	(11,533)	(6,488)
Financing Activities				
Dividends + Taxes paid	(227)	(315)	(596)	(730)
Change in Non Curr Liab	(564)	3,616	9,908	2,887
Cash Flow from Financing	(791)	3,300	9,311	2,157
Opening Cash	2,033	353	663	351
Changes during year	(380)	223	(312)	1,558
Closing Cash	1,653	663	351	1,909

Ratio Analysis

	FY13	FY14	FY15 E	FY16 E
Profitability				
Operating EBITDA%	16.8	17.9	18.4	19.6
Operating EBIT%	10.9	11.7	11.1	12.1
PAT%	3.2	3.1	4.2	5.0
Du Pont ROAE breakup				
PAT / Sales	3.2	3.1	4.2	5.0
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	9.8	11.6
Other Ratios				
Current Ratio	0.6	0.6	0.6	0.6
Long Term Debt / Equity	1.0	1.2	1.5	1.5
EPS	54.2	65.9	93.0	119.6
DPS	11.3	13.1	24.7	30.2
Dividend Payout ratio	12.4	6.2	4.9	4.1
P/E	18.4	15.1	10.7	8.3
BVPS	777.3	907.6	982.3	1,079.1
P/BV	1.3	1.1	1.0	0.9

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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