

BSE SENSEX
24,900

S&P CNX
7,597

CMP: INR1,233 TP: INR1,398 (+13%)
Buy

Stock Info

Bloomberg	JSTL IN
Equity Shares (m)	241.7
52-Week Range (INR)	1,251/801
1, 6, 12 Rel. Per (%)	5/44/44
M.Cap. (INR b)	298.0
M.Cap. (USD b)	4.5
12M Avg Val (INR M)	784
Free float (%)	58.6

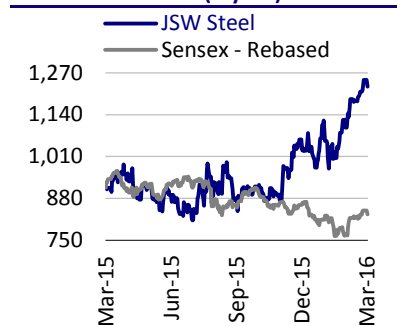
Financials Snapshot (INR b)

Y/E Mar	2016E	2017E	2018E
Sales	418.3	549.3	588.8
EBITDA	58.1	116.3	131.3
Adj. PAT	-2.3	28.2	35.9
EPS (INR)	-9.4	116.7	148.4
EPS Gr (%)	-112.6	-1,344.8	27.2
BV/Sh. (INR)	862	957	1,090
RoE (%)	-1.1	12.8	14.5
RoCE (%)	3.4	10.6	11.7
P/E (x)	-131.5	10.6	8.3
P/BV	1.4	1.3	1.1

Shareholding pattern (%)

As On	Dec-15	Sep-15	Dec-14
Promoter	41.5	41.5	39.6
DII	20.1	5.2	4.1
FII	17.0	17.2	19.9
Others	20.6	36.2	36.5

FII Includes depository receipts

Stock Performance (1-year)

Best is getting better
Stage is set for another steel price hike
Stage is set for another steel price hike in April

Indian retail steel prices have increased by ~INR3,000-6,000/t since MIP was announced in early February, significantly higher than our initial estimate of ~INR3,000/t for flat products and ~INR1,000/t for long products. Although mills still maintain that the price increases are around INR3,000/t, yet the significant improvement in retail/trade segment prices has improved pricing power for the mills. As we understand, steel mills are likely to report strong sales volumes and significant destocking during 4QFY16E. A lot of inventory has moved from mills' end to downstream supply chain and trade segment who are benefiting from rising steel prices. Further, international steel market continues to gain strength (prices are up ~USD100/t in couple of months) driven by improvement in financial liquidity and production curtailments during 6 month long horticulture festival in China. Although we don't see any material improvement in global demand, yet we believe that the steel mill's spread are likely to be better than the very depressed situation of 2015. This augurs well for Indian steel mills. A supportive international market, destocking at mills' end, and significantly higher retail prices are all conducive for another price hike by steel mills in April, in our view.

Govt. policy remains supportive, expect more longer term measures

With measures like quality order, MIP and extension of safeguard duty on HRC extending to the end of FY18E, the govt. machinery remains supportive. Govt. is still working on bringing safeguard duties on more products to prevent dumping by countries under FTA.

Market to expand by 10-12% for Indian steel mills, JSW Steel is top pick

We expect market for domestically produced steel to expand by 10-12% in FY17E as a combined effect of 5-6% demand growth and balance contributed by reduction in imports. This will create significant headroom for Indian steel producers to sell additional targeted production. Though the benefit will accrue to all steel producers, JSW Steel is our top pick because of low opex, low specific capex, easing raw material cost pressure due to improving domestic iron ore supply, improving product mix, increasing retail reach, declining capex and strong volume growth of 17% CAGR over FY16-18E. Improving free cash flows will drive equity value in the business. We will avoid Tata Steel and SAIL for its high opex due to legacy fixed cost structure and high specific capex for recently added capacities. Jindal steel & Power is struggling with very high debt levels thereby in a virtual debt trap.

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JSW Steel: best is getting better

JSW Steel, best performing steel company in world, is pushing the pedal again with strong volume growth benefiting from counter cyclical low cost expansions. Easing of cost pressures, improving pricing power and a rare combination of low cost, high quality and proximity to growth market will drive earnings strongly.

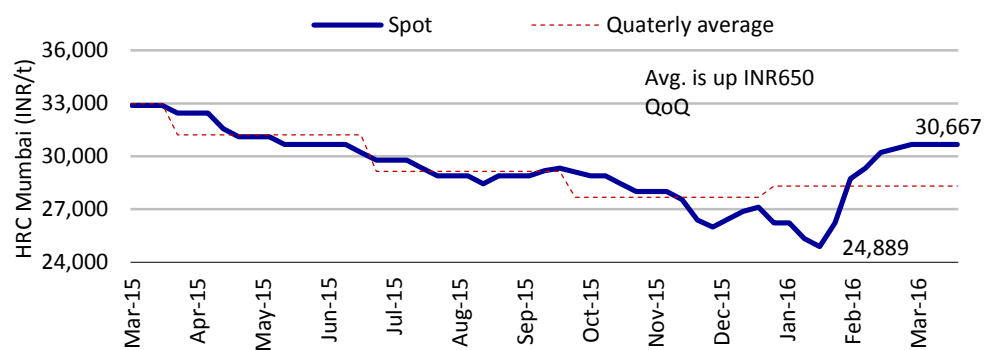
- **Pushing the pedal again:** JSW Steel is set to accelerate volumes at CAGR of 17% (to 15.8mtpa) over FY16-18E after a hiatus of 2 years. It grew its volumes at CAGR of 23% during FY05-14.
- **Counter cyclical low cost expansion:** During the last 2 years, JSW steel invested in increasing capacity from 14.3mtpa to 18mtpa through Brownfield expansions at Dolvi and Vijayanagar at very low capex of INR40.2b. Specific cost of investment is low due to leveraging of existing infrastructure, use of new technology supplied by Nippon for rebuilding blast furnaces and some of the investments done during iron ore mining ban in Karnataka to compensate for productivity decline due to poor grade of iron ore.
- **Easing cost pressures:** Iron ore supply has eased in Karnataka thereby alleviating the need for expensive imports leading to savings in raw material costs. Further, the 12.5% FDT has been removed which was applicable for iron ore sold in Karnataka.
- **A rare combination of low cost, high quality and growth market:** It is making fast inroads into premium market of Indian auto with the help of JFE who is a major shareholder and technology partner. JFE has been highlighting India as its strategic growth market in its presentations. JSW Steel is the most efficient steel producers in the world with conversion cost of only USD115/t (FY15 annual report analysis). This also includes cost of value addition on 35% of its volumes. Conversion cost will improve further on completion of Dolvi's expansion.
- **Improving pricing power:** Margins are set to expand on dual benefit of cost reduction, price recovery on implementation of MIP, BIS, Safeguard duty, INR depreciation and stability in international market.

Upgrading 4QFY16E volumes and margins on improving market

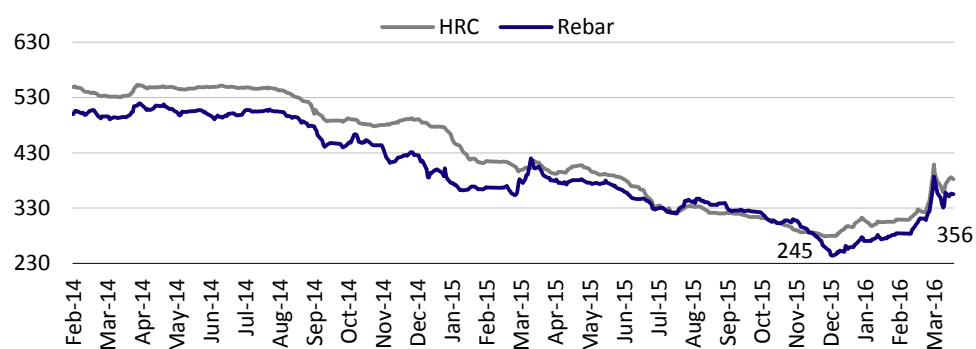
- We upgrade our 4QFY16 numbers as we expect it to deliver sale of ~3mt in the quarter higher than our earlier estimate of 2.7mt, on timely ramp-up of new capacities. Our standalone EBITDA/t is up by ~INR350/t to INR4,780/t on higher volumes and gains from FDT saving.

EBITDA to nearly double; Maintain Buy with revised TP of INR 1398/share

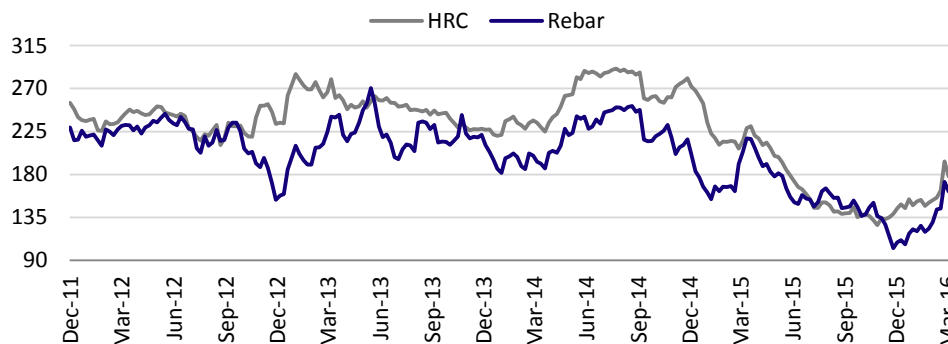
We estimate JSW's EBITDA to nearly double in FY17E to INR116b from ~INR58b in FY16E, on back of higher steel prices and operating leverage from sharp increase in volumes. Our estimates are conservatively based on ~INR4,000/t price rise since MIP (as against market price increase of ~INR6,000/t) leaving sufficient margins to absorb any near-term correction in global steel prices. We maintain our Buy rating with TP of INR1,398 at 6.5x FY17E EV/EBITDA.

Exhibit 1: Domestic HRC prices - INR/t

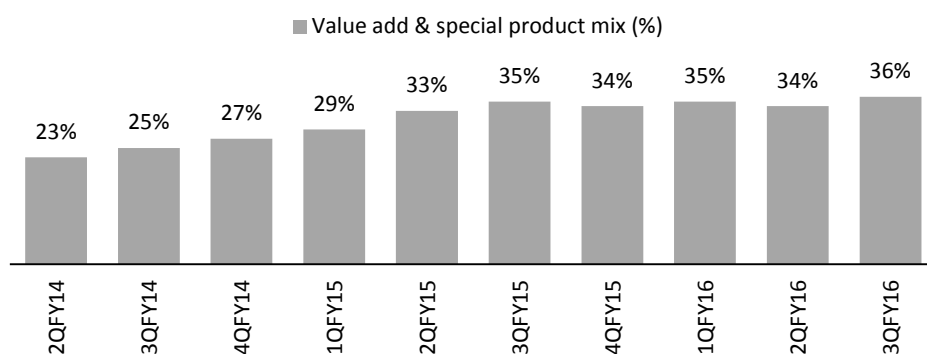
Source: MOSL, SteelMint

Exhibit 2: Chinese local steel product prices – USD/t

Source: Metals bulletin

Exhibit 3: China steel product spreads with raw material – USD/t

Source: MOSL, Bloomberg

Exhibit 4: JSW Steel – share of volume add products

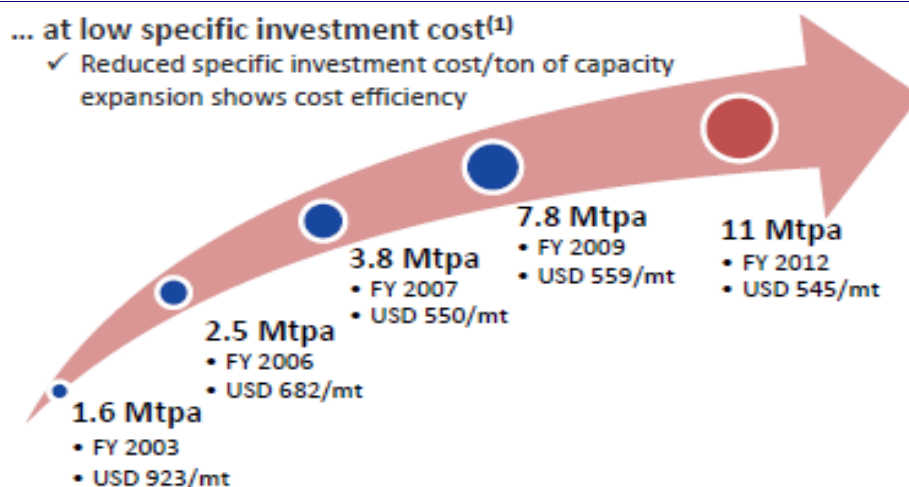
Source: Company

Exhibit 5: JSW Steel – Gaining foothold in auto segment

Applications	Components	Grades Approved			
Automotive	Hood	270F	340P	270F	340P
	Roof	270F	590R		
	Doors	270F	270F		
	Body side outer	270F	270F		
	BIW (Inner)	980Y	590R	440W	
	Floor	270F			
	Structural	980Y	590Y	590R	
	Reinf. Pillar	980Y			
	Wheels	SPFH440	SPFH590	SAPH 590	HR 750
	Engine	SCM435	S36CV	86B45	SAE1070; SAE4140
	Transmission	16MnCr5	SAE4124	SAE8822	SAE5160; SAE4145; 20MnCr5Ni
	Suspension	51CrMoVn			
Appliance	Front Panel	EDD	IF		
	Side Panel	D	DD		

Cold Rolled ■ Coated ■ HRPO ■
 Hot Rolled ■ Alloy Steel Longs ■

Source: Company

Exhibit 6: JSW Steel – Capacity expansion at low specific capex continues – recent ~3mt added at ~USD350/mt

Source: Company

Exhibit 7: JSW Steel – Target price derivation

Year	2014	2015	2016E	2017E	2018E
A. S/A volumes	11.9	12.0	11.9	15.0	15.8
B. EBITDA per ton	7,405	7,368	4,563	7,415	8,012
C. S/A EBITDA (AxB)	87,826	88,716	54,073	111,229	126,182
D. Sub. EBITDA	3,829	5,306	4,075	5,083	5,083
E. Cons. EBITDA (C+D)	91,655	94,023	58,148	116,312	131,265
F. Target EV/EBITDA (x)			6.5	6.5	6.5
G. Target EV (FxG)			377,960	756,031	853,223
less: Net Debt (INR m)	429,549	477,283	479,711	470,876	418,297
add: CWIP	93,998	82,653	72,653	52,653	12,653
Equity value				337,807	447,578
No. of shares				242	242
Target price				1398	1852

Exhibit 8: Metal sector valuation

	Rating	Price (INR)	MCAP (USD M)	EPS			P/E (x)		EV/EBITDA (x)		P/B(x)	
				FY15	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY15	FY16E
Steel												
Tata Steel	Sell	304	4,417	2.9	-4.8	-8.5	-63.7	-36.0	16.6	9.1	1.6	1.6
JSW Steel	Buy	1,233	4,460	74.5	-9.4	116.7	-131.5	10.6	13.4	6.6	1.3	1.4
JSPL	Netural	56	765	6.9	-21.4	-25.3	-2.6	-2.2	16.3	13.9	0.2	0.3
SAIL	Sell	42	2,590	5.2	-11.1	-15.4	-3.8	-2.7	-18.1	-40.0	0.4	0.4
Non-Ferrous												
Hindalco	Buy	84	2,608	13.5	-1.6	7.5	-54.2	11.2	8.4	7.1	0.8	0.8
Nalco	Buy	37	1,438	4.8	2.3	2.3	16.5	16.2	5.6	5.8	0.8	0.7
Vedanta	Neutral	88	3,889	20.5	6.3	1.8	13.8	48.9	7.8	8.5	0.5	0.5
Mining												
Coal India	Buy	295	27,854	21.7	22.9	25.4	12.9	11.6	6.1	5.5	4.6	4.5
Hindustan Zinc	Buy	170	10,736	19.4	17.8	13.5	9.6	12.6	5.5	6.4	1.7	1.5
NMDC	Sell	99	5,885	16.6	8.0	5.5	12.4	18.1	7.5	13.4	1.2	1.3

Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Net Sales	241,059	343,681	382,097	512,197	529,715	418,297	549,319	588,830
Change (%)	27.2	42.6	11.2	34.0	3.4	-21.0	31.3	7.2
EBITDA	48,679	61,019	65,039	91,655	94,023	58,148	116,312	131,265
EBITDA Margin (%)	20.2	17.8	17.0	17.9	17.7	13.9	21.2	22.3
Depreciation	15,597	19,332	22,375	31,826	34,345	32,583	36,063	38,602
EBIT	33,082	41,687	42,664	59,829	59,678	25,565	80,250	92,663
Interest	10,603	14,273	19,675	30,479	34,930	33,901	37,616	38,903
Other Income	1,900	769	697	858	1,114	1,135	1,136	1,290
Extraordinary items	0	-15,353	-4,302	-17,128	-471	-21,243	0	0
PBT	24,379	12,830	19,385	13,081	25,391	-28,444	43,770	55,050
Tax	7,785	5,002	8,453	9,201	8,194	-16,704	15,719	19,329
Tax Rate (%)	31.9	39.0	43.6	70.3	32.3	58.7	35.9	35.1
Min. Int. & Assoc. Share	-239	189	-343	504	748	1,073	527	527
Reported PAT	17,261	5,098	9,352	3,232	16,191	-13,179	27,156	34,827
Adjusted PAT	16,783	14,844	11,091	9,322	18,006	-2,266	28,210	35,881
Change (%)	40.4	-11.6	-25.3	-16.0	93.2	-112.6	-1,344.8	27.2
Balance Sheet						(INR Million)		
Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Share Capital	2,231	2,231	2,231	2,417	2,417	2,417	2,417	2,417
Reserves	160,272	162,474	168,416	209,322	220,479	206,038	228,907	260,956
Net Worth	162,503	164,705	170,647	211,739	222,896	208,455	231,324	263,373
Debt	236,073	293,907	293,909	436,858	496,419	516,973	518,764	518,764
Deferred Tax	20,494	27,250	32,720	21,234	28,894	17,879	24,844	33,162
Total Capital Employed	421,288	488,039	499,248	671,502	749,186	745,356	777,509	818,404
Gross Fixed Assets	337,771	426,895	458,676	612,979	701,889	761,889	821,889	881,889
Less: Acc Depreciation	68,732	88,775	111,508	142,520	180,126	212,709	248,771	287,374
Net Fixed Assets	269,039	338,121	347,168	470,459	521,763	549,180	573,117	594,515
Capital WIP	65,078	35,703	58,979	93,998	82,653	72,653	52,653	12,653
Investments	26,437	18,856	16,064	5,947	5,990	5,990	5,990	5,990
Current Assets	86,298	124,582	152,917	205,995	246,134	216,270	254,177	316,597
Inventory	44,097	57,893	54,952	81,551	110,090	68,761	90,299	96,794
Debtors	9,334	15,394	21,063	22,924	24,998	18,336	24,080	27,425
Cash & Bank	23,063	32,510	17,969	7,310	19,136	37,262	47,888	100,468
Loans & Adv, Others	9,805	18,786	58,933	94,209	91,910	91,910	91,910	91,910
Curr Liabs & Provns	25,563	29,223	75,880	104,897	107,353	98,736	108,428	111,351
Curr. Liabilities	21,740	26,565	30,858	44,501	39,560	30,943	40,635	43,557
Provisions	3,823	2,659	45,022	60,397	67,794	67,794	67,794	67,794
Net Current Assets	60,735	95,359	77,037	101,097	138,781	117,534	145,749	205,246
Total Assets	421,288	488,039	499,248	671,502	749,186	745,356	777,509	818,404

Financials and Valuations

Ratios

Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Basic (INR)								
EPS	75.2	66.5	49.7	38.6	74.5	-9.4	116.7	148.4
Cash EPS	144.3	121.7	149.3	147.7	213.2	86.2	265.2	307.5
Book Value	728.3	738.2	764.8	876.0	922.1	862.4	957.0	1089.6
DPS	12.3	7.5	10.0	11.0	11.0	11.0	12.0	12.0
Valuation(x)								
P/E				31.9	16.5	-131.1	10.5	8.3
Cash P/E				8.3	5.8	14.3	4.6	4.0
Price / Book Value				1.4	1.3	1.4	1.3	1.1
EV/Sales				1.4	1.5	1.9	102.4	102.4
EV/EBITDA				7.9	8.2	13.4	6.6	5.4
EV/ton				1,012	1,053	1,000	753	649
Dividend Yield (%)				0.9	0.9	0.9	1.0	1.0
Profitability Ratios (%)								
RoE	12.5	9.1	6.6	4.7	8.3	-1.1	12.8	14.5
RoCE	9.6	8.8	8.5	10.3	8.5	3.4	10.6	11.7
RoIC (pre-tax)	12	12	11	12	10	4	12	14
Turnover Ratios (%)								
Asset Turnover (x)	0.6	0.7	0.8	0.8	0.7	0.6	0.7	0.7
Inventory (No. of Days)	67	61	52	58	76	60	60	60
Debtors (No. of Days)	14	16	20	16	17	16	16	17
Leverage Ratios (%)								
Net Debt/Equity (x)	1.3	1.6	1.6	2.0	2.1	2.3	2.0	1.6

Cash Flow Statement

(INR Million)

Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Adjusted EBITDA	48,679	61,019	65,039	91,655	94,023	58,148	116,312	131,265
Non cash opr. exp (inc)	-2,944	-11,202	-7,379	-26,487	-5,522	1,073	527	0
(Inc)/Dec in Wkg. Cap.	-13,137	-10,622	5,888	-35,195	-11,748	39,373	-17,589	-6,918
Tax Paid	-4,264	-4,071	-5,105	-4,038	-7,728	5,689	-8,754	-11,010
Other operating activities	0	0	0	0	0	0	0	0
CF from Op. Activity	28,334	35,124	58,442	25,935	69,025	104,282	90,497	113,337
(Inc)/Dec in FA & CWIP	-53,144	-40,795	-56,301	-57,629	-67,206	-50,000	-40,000	-20,000
Free cash flows	-24,810	-5,671	2,142	-31,693	1,819	54,282	50,497	93,337
(Pur)/Sale of Invt	-266	808	774	176	702	0	0	0
Others	-5,853	7,332	-9,547	-12,146	10,996	1,135	1,136	1,290
CF from Inv. Activity	-59,262	-32,655	-65,074	-69,599	-55,509	-48,865	-38,864	-18,710
Inc/(Dec) in Net Worth	59,356	0	0	0	0	0	0	0
Inc / (Dec) in Debt	4,008	21,909	9,546	60,290	27,373	0	0	0
Interest Paid	-10,007	-11,430	-15,186	-24,131	-25,626	-33,901	-37,616	-38,903
Divd Paid (incl Tax) & Others	-2,397	-3,501	-2,269	-3,155	-3,437	-3,390	-3,390	-3,673
CF from Fin. Activity	50,961	6,978	-7,909	33,005	-1,691	-37,291	-41,006	-42,575
Inc/(Dec) in Cash	20,032	9,447	-14,541	-10,659	11,826	18,126	10,626	52,052
Add: Opening Balance	3,030	23,063	32,510	17,969	7,310	19,136	37,262	47,888
Closing Balance	23,063	32,510	17,969	7,310	19,136	37,262	47,888	99,940

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