

JSW Steel Ltd.

- JSW's results were higher than our estimate supported by higher contribution from subsidiaries and marginally higher than expected EBIDTA/ton for the standalone operations
- Standalone revenue declined higher than expectations due to a sharp drop in blended realisations
- Volume growth was strong led by an increase in share of retail sales
- Blended realisations were quite weaker than our expectations due to a sharp fall in HRC prices and higher discounts to boost retail sales
- Standalone EBIDTA/ton was marginally higher than estimate as the impact of higher than expected decline in realisations was offset by higher than expected decline in raw material costs and other expenses
- JSW Coated reported strong numbers as the decline in value added product prices was lower than that of HRC
- Maintain Buy with a revised price target of Rs. 1,081.

Result table

(Rs cr)	Q1 FY16	Q1 FY15	% yoy	Q4 FY15	% qoq
Net sales	11,576	13,254	(12.7)	12,600	(8.1)
Material costs	(6,527)	(7,446)	(12.3)	(7,305)	(10.6)
Personnel costs	(422)	(375)	12.6	(380)	10.9
Power and fuel costs	(1,034)	(957)	8.0	(1,067)	(3.1)
Other overheads	(1,966)	(1,864)	5.4	(2,165)	(9.2)
Operating profit	1,627	2,612	(37.7)	1,683	(3.3)
OPM (%)	14.1	19.7	-565 bps	13.4	70 bps
Depreciation	(939)	(795)	18.0	(898)	4.5
Interest	(822)	(844)	(2.5)	(858)	(4.2)
Other income	26	54	(51.9)	18	41.0
PBT	(108)	1,026	-	(55)	94.8
Tax	(17)	(383)	(95.7)	112	-
Effective tax rate (%)	(15.4)	37.3		203.2	
Other prov / minority etc	18	13	42.2	31	(41.7)
Adjusted PAT	(106)	656	-	88	-
Adj. PAT margin (%)	(0.9)	5.0	-587 bps	0.7	-162 bps
Extra ordinary	(1)	-	-	(26)	(97.1)
Reported PAT	(107)	656	-	62	-
Ann. Adj EPS (Rs)	(17.6)	108.6	-	14.6	-

Source: Company, India Infoline Research

Realisations under pressure

JSW Steel's revenue remained under pressure from falling steel prices as the company reported a decline of 12.7% yoy on a consolidated basis. The impact of a sharp fall in steel prices on topline was offset by strong volume growth. The company managed to sell 3.1mn tons in the standalone entity, higher by 8% yoy. The company managed to achieve this even after registering a 14% decline in export volumes. The management indicated that it has managed to increase its domestic sales volume by 27% yoy on the back of larger distribution network and by catering to different product customers. Share of exports were flat on a qoq basis, but was down to 24% from 27% in Q1 FY15. Sales to OEMs/industrials grew by 13% yoy during the quarter.

Rating: BUY

Target: Rs1,081

CMP: Rs812

Upside: 33.1%

Sector: Metals & Mining

Sector view: Negative

Sensex: 27,563

52 Week h/l (Rs): 1,365 / 801

Market cap (Rscr) : 19,640

6m Avg vol ('000Nos): 719

Bloomberg code: JSTL IN

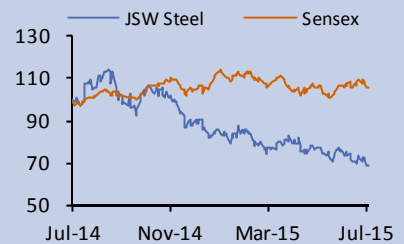
BSE code: 500228

NSE code: JSWSTEEL

FV (Rs): 10

Price as on July 29, 2015

Share price trend



Share holding pattern

%	Dec-14	Mar-15	Jun-15
Promoters	39.6	40.0	40.4
Insti	23.9	23.2	23.8
Others	36.5	36.8	35.8

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July 30, 2015

The increase in sales volume was largely led by an increase in retail sales. In tonnage terms the company registered a growth of 77% yoy and 29% qoq as export market was not lucrative and the company has increased its focus on domestic sales. Blended realisations in the standalone entity declined sharply by 18.8% yoy and 9.3% qoq to Rs. 32,566/ton quite lower than our estimates. We believe that the higher than expected decline was on account of higher discounts given by the company to boost sales and lower export volumes. However, the decline in value added product prices was lower than the decline in HRC prices and hence led to higher than expected contribution from JSW Coated. Share of value added products in the consolidated entity improved from 29% in Q1 FY15 and 34% in Q4 FY15 to 35% in Q1 FY16. Globally steel prices are under pressure from rise in exports from China, Japan and Russia. The company believes there is limited downside for steel prices from current levels. The proportion of value-added products will increase due to (a) ramp-up of the cold rolling mill commissioned in March 2015 and Electrical steel mill (0.2mtpa) in April 2015. The management expects easing of iron ore availability in the domestic market and a sharp decline in iron ore prices to support volume growth in FY16.

EBIDTA/ton marginally higher than expected

Operating profit for the quarter was higher than our expectations as the impact of lower steel prices was offset by higher than expected decline in costs. The decline in Raw material costs per ton was quite higher than expected. We were positively surprised by the decline as the company had consumed 1mn tons of imported iron ore inventory and the impact of lower iron ore prices from NMDC would be realized with a lag in Q2 FY16. During the quarter, raw material costs per ton declined by 10.3% qoq and 15.1% yoy to Rs. 18,939/ton against our expectation of 5% qoq decline. Other costs too declined on a qoq basis as the company has started renegotiating for lower rates and lower exports. Other overheads per ton of steel declined by 9.7% qoq on account of lower stores and spares cost and lower transportation costs. EBIDTA/ton of saleable steel declined from Rs. 5,469 in Q4 FY15 to Rs. 4,838 in Q1 FY16 against our expectation of Rs. 4,566. The company expected iron ore costs to decline sharply from Q2 FY16 due to lower consumption of imported inventory and benefits of the sharp prices cuts announced by NMDC to flow in. The company also expects increase in supply in Karnataka to increase to 24mn tons in FY16 from 19mn tons in FY15. Going forward, the company expects margins to increase in FY16 on the back of (a) lower coking coal and iron ore prices (b) increase in share of value added products and (c) various cost saving measures initiated by the company.

On a consolidated basis, operating profit was higher than expected due to higher contribution from JSW Coated and lower losses at Chile. JSW Coated managed to report strong numbers as the decline in value added product prices was lower than the decline in HRC prices. JSW Coated managed to report 91.3% qoq jump in operating profit during the quarter. US plate and pipe mill subsidiary continued to report operating loss as the company has to take inventory writedown. Operations at the plate mill have improved over the last one year. The company has stopped mining at its Chile iron ore and US coal mine subsidiary due to the sharp fall in commodity prices. Interest costs for the company was lower on a qoq basis due to refinancing of debt in previous quarter.

Per ton analysis (Standalone)

	Q1 FY16	Q1 FY15	% yoy	Q4 FY15	% qoq
Steel production ('000 tons)	3,400	3,100	9.7	3,060	11.1
Steel sales ('000 tons)	3,110	2,880	8.0	3,060	1.6
Sales as a % of production	91.5	92.9		100.0	
Net realisations	32,566	40,091	(18.8)	35,890	(9.3)
Cost per ton (Rs/ton)					
Raw material	18,939	22,300	(15.1)	21,108	(10.3)
Personnel cost	840	820	2.5	788	6.6
Power and fuel costs	2,710	2,871	(5.6)	2,722	(0.5)
Other overheads	5,240	5,319	(1.5)	5,803	(9.7)
Total cost	27,728	31,309	(11.4)	30,421	(8.9)
EBIDTA/ton	4,838	8,783	(44.9)	5,469	(11.5)

Source: Company, India Infoline Research

US pipe and plate mill performance

	Q1 FY16	Q1 FY15	% yoy	Q4 FY15	% qoq
Plate sales (tons)	48,076	95,506	(49.7)	63,960	(24.8)
Pipes sales (tons)	17,157	9,230	85.9	13,380	28.2
Revenue (US\$ mn)	52.5	99.2	(47.1)	80.9	(35.1)
Operating profit (US\$ mn)	(9.4)	4.0	-	0.1	-
PAT (US\$ mn)	(25.5)	(10.4)	145.1	(16.9)	50.6

Source: Company, India Infoline Research

Chile iron ore performance

	Q1 FY16	Q1 FY15	% yoy	Q4 FY15	% qoq
Plate sales (tons)	83,774	220,736	(62.0)	155,033	(46.0)
Pipes sales (tons)	160,667	325,522	(50.6)	150,536	6.7
Revenue (US\$ mn)	8.4	32.1	(73.7)	5.8	45.6
Operating profit (US\$ mn)	0.7	(0.4)	(294.3)	(10.3)	(106.6)
PAT (US\$ mn)	(1.9)	(1.6)	20.8	(11.2)	(82.9)

Source: Company, India Infoline Research

JSW Coated steel performance

	Q1 FY16	Q1 FY15	% yoy	Q4 FY15	% qoq
Production (mn tons)	0.39	0.40	(2.5)	0.37	5.4
Sales (mn tons)	0.40	0.40	-	0.39	2.6
Revenue (Rs cr)	2,132	2,505	(14.9)	2,193	(2.8)
Operating profit (Rs cr)	111	95	16.8	58	91.4
PAT (Rs cr)	26	7	271.4	(26)	(200.0)

Source: Company, India Infoline Research

Prices close to bottom; maintain BUY

JSW Steel has corrected sharply over the last six months due to rising concerns over dumping of Chinese steel, subdued domestic demand and decreasing domestic iron ore production. We believe that the correction in the stock is overdone and we expect the above headwinds to ease out in FY16. Iron ore prices in the domestic market have declined sharply over the last six months and would lead to lower costs for the company. Depreciation in Rupee coupled with the import restrictions would ease the pressure on domestic steel prices. Demand growth in the domestic economy has been strong in Q1 FY16 and is expected to further pick up from H2 FY16 as revival in the domestic economy gains steam, which in turn will lead to an increase in infrastructure spending. JSW will be the key beneficiary of improving domestic iron ore availability post the implementation of the MMDR Act. This would also allow auctions of iron ore mines in future and JSW would manage to acquire mines up for auctions in Karnataka. We have cut our estimates factoring in the sharp fall in steel prices. However, we maintain our BUY reco with a revised price target of Rs1,081.

Financial Summary

Y/e 30 Jun (Rs cr)	FY14	FY15E	FY16E	FY17E
Revenues	51,220	52,972	48,308	53,545
yoy growth (%)	34.0	3.4	(8.8)	10.8
Operating profit	9,165	9,402	8,227	10,254
OPM (%)	17.9	17.7	17.0	19.1
Pre-exceptional PAT	2,165	1,844	948	2,211
Reported PAT	452	1,797	948	2,211
yoy growth (%)	62.5	(14.8)	(48.6)	133.3
EPS (Rs)	89.6	76.3	39.2	91.5
P/E (x)	9.2	10.8	20.9	9.0
Price/Book (x)	0.9	0.9	0.9	0.8
EV/EBITDA (x)	6.0	6.0	6.9	5.4
Debt/Equity (x)	1.7	1.7	1.7	1.5
RoE (%)	9.8	7.1	2.9	7.9
RoCE (%)	12.0	9.9	7.1	9.7

Source: Company, India Infoline Research

'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

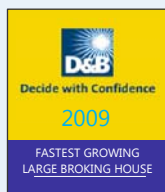
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Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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