

JSW Steel Ltd.

₹362

*Stronger than Steel...!!!***Accumulate**

Oct 05, 2018

Company Background

JSW Steel Ltd, the flagship company of the JSW Group, is an integrated steel manufacturer in India with an installed steel-making capacity of 18 MTPA. It offers the entire range of steel products-Hot Rolled, Cold Rolled, Galvanized, Galvalume, Pre-painted Galvanised, Pre-painted Galvalume, TMT Rebars, Wire Rods & Special Steel Bars, Rounds & Blooms. It has manufacturing facilities at Vijayanagar in Karnataka, Dolvi, Vasind, Kalmeshwar, Tarapur in Maharashtra, Salem in Tamil Nadu and Texas in USA. JSW Steel's plant at Vijayanagar in Karnataka, is the largest single location steel producing facility in the country with a capacity of 12 MTPA. JSW Steel is part of \$15 billion O.P.Jindal Group. During the FY18 Board of Directors have approved to form a wholly owned subsidiary in the name of JSW Utkal Steel Ltd, with an initial investment of up to ₹ 150 crore to undertake preliminary studies and for other costs. JSW Steel as a part of its growth strategy proposes to set up a steel plant in Odisha. Odisha provides a wonderful opportunity to build one of the world's lowest cost and port based pellet and steel producing facilities and could be the next destination in the company's growth path to achieve its vision.

Key Highlights

- ➔ JSW Steel had announced plan to increase the production capacity at its Vijayanagar facility to 13 MTPA from 12 MTPA.
- ➔ It will also set-up a 1.5 MTPA coke oven plant at Vijayanagar to bridge the current & expected gaps in coke availability and is likely to be commissioned by March 2020.
- ➔ It acquired five mines in Karnataka in auction 2017. It commenced operations at two iron ore mines (Tunga & Nandi Mines) in Karnataka for which it has already received statutory clearances. The cumulative capacity of these two iron ore mines is 0.71 MTPA. For remaining three mines, expects statutory clearances & approvals during the current fiscal. Annual production capacity of these five mines is approximately 4.66 MTPA.
- ➔ Once all five mines are operational, these mines are expected to fulfil approx 20% of the requirement of JSW Vijayanagar unit.

Key Financials

Year Ended 31 st	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	4,11,772.6	5,71,680.0	6,64,470.0
Rev. growth (%)	(19.04)	38.83	16.23
EBITDA (INR mn)	8,267.0	1,17,990.0	1,37,200.0
Net profit (INR mn)	(35,296.7)	35,770.0	46,250.0
Shares outstanding (mn)	3,009.0	3,010.0	3,020.0
EPS (INR)	0.0	11.9	15.3
EPS growth (%)	(100.00)	0.00	28.87
P/E (x)	0.00	0.00	18.81
RONW (%)	0.00	16.07	17.79
ROCE (%)	0.00	14.55	16.62

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Info Codes

Reuters	: JSTL.BO
Bloomberg	: JSTL IN
NSE	: JSWSTEEL
BSE	: 500228

Market Data

52 Wk Range (₹)	: 238/427
Shares in Issue (mn)	: 3,020
Market. Cap (bn)	: 874.92
BSE 2 Wk Avg Vol	: 4,61,000

Share Holding Pattern (%)

Promoters Holding	: 41.75
Public & Others	: 10.73
Corporate Holding	: 07.99
Foreign Institution	: 36.15
Institutions	: 02.87
Govt Holding	: 00.51

Investment Theme

JSW Steel & Aion Investments Pvt II Ltd (together as a consortium) had submitted a bid for Monnet Ispat & Energy Ltd (MIEL) under the corporate insolvency proces. Recently completed the acquisition. Consortium members will own 74.29% in equity capital of MIEL. The shareholders of MIEL, will hold the balance equity of 25.71% of MIEL equity share capital. Both JSW Steel and NU Metal submits joint bids in the second round of bidding for the acquisition of debt-laden Essar Steel Ltd. Share Purchase Agreement between JSW Steel Italy Srl (subsidiary of JSW Steel Ltd) and Cevitaly Srl have completed the acquisition of Aferpi, Piombino Logistic and GSI Lucchini. It raised its offer for Bhushan Power & Steel to ₹19,500 crore. It has aggressive acquisition, it will improve the human skills, operational performance & to increase market share.

Weaving Dreams into Reality.....!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Sales	3,67,069.2	5,22,900.0	42.5	6,49,750.0	24.3
Other Income	3,183.0	2,550.0	(19.9)	2,130.0	(16.5)
Change in Stocks	(10,835.6)	13,900.0	(228.3)	(4,120.0)	(129.6)
Raw Material Con.	1,89,160.4	2,93,450.0	55.1	3,70,580.0	26.3
Employee Exp.	9,532.9	11,680.0	22.5	12,600.0	7.9
Indirect Taxes	41,520.4	46,230.0	11.3	12,590.0	(72.8)
Other Exp.	1,10,935.9	70,000.0	(36.9)	1,14,790.0	64.0
Operating Exp.	3,51,149.6	4,21,360.0	20.0	5,10,560.0	21.2
Operating Profit	8,267.0	1,17,990.0	1,327.2	1,37,200.0	16.3
Total Interest	32,187.3	36,430.0	0.0	35,910.0	0.0
Gross Profit	(23,920.3)	81,560.0	(441.0)	1,01,290.0	24.2
Net Dep	28,472.4	30,250.0	6.2	30,540.0	1.0
Total Taxation	(17,096.0)	15,540.0	(190.9)	24,500.0	0.0
Net Profit/Loss	(35,296.7)	35,770.0	(201.3)	46,250.0	29.3

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 15	Mar 16	Mar 17	Mar 18
SOURCES OF FUNDS	5,41,515.9	5,72,217.5	6,34,170.0	6,49,050.0
Equity Share capital	10,671.9	3,009.0	3,010.0	3,020.0
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	2,46,574.1	2,01,093.5	2,37,970.0	2,76,050.0
Secured Loans	1,72,447.0	1,70,561.1	1,63,550.0	1,49,420.0
Unsecured Loans	1,11,822.9	1,97,553.9	2,29,640.0	2,20,560.0
USES OF FUNDS	5,41,515.9	5,72,217.5	6,34,170.0	6,49,050.0
Gross Block	5,38,247.1	4,93,875.7	5,60,390.0	5,83,470.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	1,52,553.2	28,276.4	57,730.0	87,790.0
Net Block	3,85,693.9	4,65,599.3	5,02,660.0	4,95,680.0
Capital Work in Progress	77,898.6	64,393.2	30,270.0	33,920.0
Investments	41,972.8	47,640.3	50,500.0	48,780.0
Current Assets	1,90,239.6	1,34,635.9	1,74,980.0	1,92,530.0
Less : Current Liabilities	1,77,742.2	1,62,860.0	1,62,130.0	1,85,750.0
Total Net Current Assets	12,497.4	(28,224.1)	12,850.0	6,780.0
Misc. Expenses not writtenoff	23,453.2	22,808.8	37,890.0	63,890.0
NOTE				
Book Value of Unquoted Investments	39,766.7	41,278.3	41,760.0	42,120.0
Market Value of Quoted Investments	10,903.7	6,362.0	8,740.0	6,660.0
Contingent Liabilities	40,598.0	56,418.9	37,940.0	47,750.0
Dividend (%)	110.0	75.0	225.0	320.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 17	Dec 17	Mar 18	Jun 18
Net Sales	1,48,200.0	1,62,990.0	1,93,460.0	1,84,650.0
Cost Of Sales	1,20,590.0	1,31,140.0	1,51,160.0	1,41,420.0
Operating Profit	27,610.0	31,850.0	42,300.0	43,230.0
Other Income	2,150.0	1,970.0	8,860.0	6,660.0
Adjusted PBDIT	29,760.0	33,820.0	51,160.0	49,890.0
Financial Expenses	9,190.0	8,920.0	8,730.0	8,660.0
Depreciation	7,720.0	7,690.0	7,810.0	8,190.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	12,850.0	17,210.0	34,620.0	33,040.0
Tax Charges	4,400.0	5,950.0	12,270.0	9,660.0
Reported Profit	8,450.0	11,260.0	22,350.0	23,380.0
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	8,450.0	11,260.0	22,350.0	23,380.0

52 Week Index Relative Percentage Appreciation

JSW Steel vs SENSEX
Risks Associated

- ➔ The iron & steel industry might be recording an impressive 8% annual growth, but it is struggling to meet environmental norms, the Centre for Science and Environment concluded. Steel making process involves emission of CO₂, dust & other hazardous gases/waste. So Government will make policies to safeguard the environment.

Scope of Growth

- ➔ Annual capacity of 18 MTPA, with seven manufacturing units spanning western & southern India and is on track to touch 40 MTPA in the next decade. By 2025, JSW Steel aims to produce 40 million tons of steel annually.
- ➔ Company signed a joint venture agreement with Marubeni-Itochu Steel Inc., Japan, to set up steel processing centres. Operates a plate and pipe making steel mill, situated at Baytown, Texas in USA.
- ➔ It entered into technological collaboration with JFE Steel Corporation Japan for the manufacture of high-strength and advanced high-strength steel for the automobile sector.
- ➔ Company reduced its net debt on consolidated basis by ₹ 3,529 crore in FY18. It's plant capacity utilisation of 91%, among the best the industry.
- ➔ It proposed an investment of upto \$ 500 million in acquiring, enhancing & upgrading Acero Junction Inc, an integrated steel manufacturing unit with a potential capacity of 3 MTPA, located at Ohio USA, in phases.
- ➔ JSW Steel Coated Products Ltd (subsidiary of JSW Steel Ltd) is setting up a Tin Plate Mill and related facilities at its Tarapur Work to cater to the increasing demand for the tin plate. The estimated project cost is ₹ 650 crores and is expected to be commissioned in FY19.

In a Nutshell

JSW Steel Ltd, is an integrated steel manufacturer in India with an installed steel-making capacity of 18 MTPA. It has seven manufacturing facilities at Vijayanagar in Karnataka, Dolvi, Vasind, Kalmeshwar, Tarapur in Maharashtra, Salem in Tamil Nadu and Texas in USA. Company is expanding the capacity in different units. In Vijayanagar unit it is expanding the CRM1 complex capacity from 0.85 mtpa to 1.80 mtpa, it will commission by Q2FY20. In Dolvi it is doubling steel making capacity from 5 mtpa to 10 mtpa and it will set up power plants with the cost is ₹ 975 crore, 175 MW and 60 MW to save power costs. Both of these projects will operate by March, 2020. Apart from this expansion, it is aggressively bidding for insolvent companies in the peer group during the FY18. Out of some bids are executed and some are in the process. Such as; Company & Aion Investments Pvt II Ltd (together as a consortium) had submitted a bid for Monnet Ispat & Energy Ltd, recently completed the acquisition. Both JSW & NU Metal submits joint bids in the second round of bidding for the acquisition of Essar Steel Ltd. JSW Steel raised its offer for Bhushan Power & Steel to ₹ 19,500 crore in the mid of August, 2018. It submitted a resolution plan for Vardhman Industries Ltd under the corporate insolvency resolution process and get the approval from the committee of creditors. Company entered into a Stock Purchase Agreement with JSM International Ltd, Acero Junction Holdings Inc and Acero Junction Inc. for acquisition of 100% shares for a cash consideration of \$80.85 million. All the above aggressive actions like; expansion, acquisition and joint venturing will help to enhance the top and bottom line items for future.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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