

Standing tall in turbulent times

October 21, 2011

Reco	Previous Reco
Under Review	Under Review
CMP	Target Price
Rs 580	NA
EPS change FY12E/13E (%)	NA/NA
Target Price change (%)	NA
Nifty	5,050
Sensex	16,786

Price Performance

(%)	1M	3M	6M	12M
Absolute	(14)	(32)	(40)	(54)
Rel. to Nifty	(13)	(26)	(30)	(45)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Metals & Mining
Bloomberg	JSTL@IN
Equity Capital (Rs mn)	2231
Face Value(Rs)	10
No of shares o/s (mn)	223
52 Week H/L	1,363/532
Market Cap (Rs bn/USD mn)	130/2,596
Daily Avg Volume (No of sh)	2935449
Daily Avg Turnover (US\$m)	38.9

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	37.7	37.7	37.7
FII/NRI	42.8	45.4	45.8
Institutions	4.6	4.8	4.9
Private Corp	4.4	3.4	3.5
Public	10.6	8.7	8.1

Source: Capitaline

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- **Standalone topline at Rs 76,321 mn, up 32% YoY and 8% QoQ was sharply higher than estimates on strong realizations of Rs 42,831/tonne**
- **EBITDA at Rs 12,961 mn, up 31% YoY but down 7% QoQ. EBITDA/ tonne remained Rs 6,887 (US\$150). Iron ore cost rose by 14% QoQ increasing costs**
- **APAT at Rs 6,407 mn, up 44% YoY and 11% QoQ without the unrealized forex loss of Rs 5,130 mn during the quarter due to INR depreciation**
- **Crude steel production at 1.738 mt and sales at 1.882 mt due to release of inventory; Cost of production rose by Rs 1,500/ tonne due to higher procurement cost of iron ore**

Volume surprised positively on better than expected production

JSW Steel reported crude steel production of 1.738 mt for Q2FY12, which remained higher against our expectations. Considering the company produced 1.26 mt of crude steel during first two months of Q2 and severe iron shortage during September, this number looks encouraging. Sales volume of 1.882 mt was also higher than expectations. Other than higher production, sales volume was also aided by inventory release of 36000 tonnes and transfer sales from JSW Ispat. The company currently has been operating at 50- 60% capacity utilizations and sourcing iron ore to the tune of ~30000 tonne/ day. Going forward the company believes that the situation should improve and cut its production and sales guidance to 7.5 mt and 7.8 mt respectively for FY12. Realizations on the other hand stood at Rs 42832/ tonne, flat QoQ.

Iron ore cost rose by Rs 825/ tonne, likely to remain stable

Iron ore cost for the quarter rose by Rs 825/ tonne over the blended average cost of Rs 2750/ tonne for Q1FY12. The company has been procuring 10- 15000 tonne/ day from NMDC, Chattisgarh, whereas it has so far purchased 2.08 lakh tones from the e-auction in Karnataka. The landed cost for this e-auctioned iron for JSW Steel remained Rs 3300/ tonne. Though, the e-auction process has been stabilizing, transportation of the ore from the mines still remains a problem for the company like other players in the region. Ban on iron ore mining forced the company to reduce its output by 450,000 tonne. We believe the process would get better going forward and a better approach might be adopted by the concerned authorities. JSW Steel along with other players has been representing its case regarding this with the CEC and the SC. Meanwhile, NMDC against its permitted production of 1 mt per month, has been producing 0.6- 0.7 mt/ month.

INR depreciation dented bottomline

Due to sharp depreciation in INR during the month of September, the company incurred a notional loss of Rs 10 bn during the quarter. Out of this Rs 5.13 bn was due to payables on coking coal import charged in the profit and loss account and rest was due to unhedged forex loan exposure that was adjusted in the balance sheet. We believe, any further depreciation in INR beyond 49.3 per USD would be negative for the company, as in that case it has to be booked.

Outlook

We believe the iron ore situation in Karnataka to improve going forward, however, not in the immediate future. This would continue to put pressure on the margins due to higher iron ore prices. On the other hand INR depreciation would help the company as far as the topline is concerned. However, the same reason would nullify any positive impact that might come due to softening of international coking coal prices. At this point, we would wait for the consolidated numbers to come before revising our estimates and target price. We continue to keep the stock under review.

Key Financials – Quarterly (Standalone)

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	H1FY12	H1FY11	YoY (%)
Revenue	57759	58075.5	71052	70693.8	76321.3	32.1	8.0	147,015	104,561	40.6
Expenditure	(47,838)	(48,074)	(54,510)	(56,755)	(63,360)	32.4	11.6	(120,115)	(84,295)	42.5
<i>as % of sales</i>	<i>82.9</i>	<i>83.1</i>	<i>77.2</i>	<i>80.7</i>	<i>83.0</i>			<i>81.7</i>	<i>80.6</i>	
Consumption of RM	(33,643)	(35,979)	(45,172)	(45,932)	(50,836)	51.1	10.7	(96,767)	(68,219)	41.8
<i>as % of sales</i>	<i>69.2</i>	<i>69.5</i>	<i>63.8</i>	<i>61.5</i>	<i>66.6</i>			<i>65.8</i>	<i>65.2</i>	
Employee Cost	(1,291)	(1,277)	(1,367)	(1,766)	(1,463)	13.3	(17.2)	(3,228)	(2,701)	19.5
<i>as % of sales</i>	<i>2.6</i>	<i>2.5</i>	<i>2.2</i>	<i>2.9</i>	<i>1.9</i>			<i>2.2</i>	<i>2.6</i>	
Other expenditure	(12,904)	(10,818)	(7,970)	(9,058)	(11,062)	(14.3)	22.1	(20,120)	(13,375)	50.4
<i>as % of sales</i>	<i>11.0</i>	<i>11.0</i>	<i>11.1</i>	<i>16.4</i>	<i>14.5</i>			<i>13.7</i>	<i>12.8</i>	
EBITDA	9,922	10,002	16,543	13,939	12,961	30.6	(7.0)	26,900	20,266	32.7
Depreciation	(3,324)	(3,464)	(3,827)	(3,879)	(4,039)	21.5	4.1	(7,918)	(6,497)	21.9
EBIT	6,597	6,538	12,716	10,060	8,922	35.2	(11.3)	18,982	13,770	37.9
Other Income	1633.8	78.9	38.4	168.8	368.4	(77.5)	118.2	537	1,634	(67.1)
Interest	(1,993)	(1,320)	(1,528)	(1,966)	(2,344)	17.6	19.2	(4,310)	(4,104)	5.0
PBT	6,238	5,297	11,226	8,263	6,947	11.4	(15.9)	15,210	11,300	34.6
Total Tax	(1,783)	(1,474)	(2,899)	(2,480)	(546)	(69.4)	(78.0)	(3,025)	(3,343)	(9.5)
Adjusted PAT	4,454	3,823	8,327	5,783	6,401	43.7	10.7	12,184	7,957	53.1
Adj.PAT after MI	4,454	3,823	8,327	5,783	6,401	43.7	10.7	12,184	7,957	53.1
Adj. PAT with 30% tax rate	4,454	3,823	8,327	5,783	4,863	9.2	(15.9)	10,646	7,957	33.8
Extra ordinary items	0	0	0	0	(5,130)	-	-	(5,130)	-	-
Reported PAT	4,454	3,823	8,327	5,783	1,271	(71.5)	(78.0)	7,054	7,957	(11.3)
Reported EPS	23.8	17.1	37.3	25.9	28.7	20.5	10.7	54.6	42.5	28.4

Margins (%)						(bps)	(bps)			
EBIDTA	17.2	17.2	23.3	19.7	17.0	(20)	(274)	18.3	19.4	(108)
EBIT	11.4	11.3	17.9	14.2	11.7	27	(254)	12.9	13.2	(26)
EBT	10.8	9.1	15.8	11.7	9.1	(170)	(259)	10.3	10.8	(46)
PAT	7.7	6.6	11.7	8.2	8.4	67	21	8.3	7.6	68
Effective Tax rate	28.6	27.8	25.8	30.0	7.9	(2,073)	(2,215)	19.9	29.6	(969)

Key takeaways from the analyst meet

- Cost of seel making rose by Rs 3500/ tonne on account of higher raw material prices, out of which Rs 1500/ tonne was due to iron ore and rest Rs 2000/ tonne was on account of coking coal and other raw materials.
- US plate mill operating at 37% utilization, while pipe mill has been operating at a lower capacity. While pipe mill has been witnessing higher enquiries, plate mill is likely see some slowdown
- The company has got new product approval for: Tata Motors (160mm dia bar), Volvo – Eicher Motors (Steel for front axle Beam) and Mahindra and Mahindra Tractors (Steel for Bull Gears)
- During the quarter JSW Shoppe increased to 315 as against 295 in Q2FY11, while sales through Shoppe rose by 15.5% YoY to 372,000 tonnes
- Net debt at the end of Q2FY12 rose slightly to Rs121bn and cash and cash equivalent remained at Rs18.52bn

Recommendation History: JSW Steel – JSTL IN

Date	Reports	Reco	CMP	Target
27/07/2011	JSW Steel Q1FY12 Result Update	Accumulate	870	1,016
17/05/2011	JSW Steel Q4FY11 Result Update	Buy	921	1,169
06/04/2011	JSW Steel Management Meet Update	Accumulate	991	1,060
28/01/2011	JSW Steel Q3FY11 Result Update	Accumulate	903	1,060

Recent Research Reports

Date	Reports	Reco	CMP	Target
19/10/2011	Hindustan Zinc Q2FY12 Result Update	Buy	121	159
07/09/2011	Nalco Company Update	NA	66	NA
12/08/2011	Tata Steel Q1FY12 Result Update	Buy	476	670
09/08/2011	Godawari Power Q1FY12 Result Update	Buy	151	210

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