

JSW Steel declares 2Q FY 2019-20 Results

Mumbai, India: JSW Steel Limited (“JSW Steel” or the “Company”) today reported its results for the Second Quarter and the Half Year ended 30th Sep, 2019 (“2Q FY2020” or the “Quarter” and “1H FY2020” or the “Half year”).

Key highlights of the quarter:**Standalone Performance:**

- Crude Steel production: 3.84 million tonnes
- Saleable Steel sales: 3.60 million tonnes
- Revenue from operations: ₹15,520 crores
- Operating EBITDA: ₹ 2,796 crores
- PAT: ₹ 2,917 crores

Consolidated Performance:

- Saleable Steel sales: 3.56 million tonnes
- Revenue from operations: ₹17,572 crores
- Operating EBITDA: ₹ 2,731 crores
- PAT: ₹ 2,536 crores

The current quarter performance of JSW Steel was marked by a confluence of multiple headwinds - prolonged and severe monsoon impacting operations / logistics at Dolvi Works, weak demand environment, sustained tight liquidity conditions, certain planned shutdowns and a sharp correction in steel prices. As a result, crude steel production during the quarter stood at 3.84 million tonnes, lower by 8% YoY.

Weaker activity levels on the back of muted investment spend, credit squeeze and slowdown in the automotive sector resulted in overall subdued steel demand. Consequently, saleable steel sales for the quarter stood at 3.60 million tonnes, lower by 9% YoY.

To partially mitigate the headwind of weak domestic demand, the company tactically increased exports, which surged by 68% YoY to 1.09 million tonnes and exports

accounted for 31% of consolidated saleable steel sales during the quarter. Consolidated Sales volumes stood at 3.56 million tonnes, a decline of 9% YoY and 3% QoQ.

The crude steel production and saleable steel sales volumes for the first half of FY2020 stand at 47% and 46% respectively of the full year FY2020 guidance. Even though we expect a pick up in the second half of the year, the volumes so lost in the first half are unlikely to be recouped during the second half. As a result, the company expects to achieve ~ 97% of its crude steel production and saleable steel sales guidance of FY2020.

Standalone Performance:

The details of production and sales volumes are as under:

Particulars	(Million tonnes)					
	2Q FY2020	2Q FY2019	%YOY	1H FY2020	1H FY2019	%YOY
Production: Crude Steel	3.84	4.18	-8%	8.08	8.30	-3%
Sales:						
- Rolled: Flat	2.58	2.87	-10%	5.25	5.60	-6%
- Rolled: Long	0.85	0.89	-5%	1.78	1.76	1%
- Semis	0.17	0.19	-10%	0.33	0.43	-24%
Total Saleable Steel	3.60	3.96	-9%	7.35	7.79	-6%

The Company's revenue from operations during the quarter stood at ₹15,520 crores, a decline of 21% YoY mainly due to lower sales realization and lower sales volumes. Additionally, margins were adversely affected by lagged pricing impact of certain key raw materials like coking coal (procurement cycle). The benefit of subsequent correction in raw material prices will flow through in the subsequent quarter.

The Company's Dolvi Works in Maharashtra has received an in-principal approval for eligibility from the Government of Maharashtra for incentives on its investment for expansion from 3.3 MTPA to 5 MTPA. Accordingly, the Company has recognized grant income (investment linked incentive) of ₹512 crores during the quarter ended 30 September 2019, including an amount of ₹466 crores in relation to earlier years.

As a result, operating EBITDA for the quarter stood at ₹2,796 crores with an EBITDA margin of 18.0%.

Pursuant to changes to the Corporate Tax regime, the Company has made an assessment of the impact of the Taxation Law (Amendment) Ordinance 2019 and decided to continue with the existing tax structure until utilisation of accumulated minimum alternative tax (MAT) credit. However, in accordance with the accounting standards, the Company has also evaluated the outstanding deferred tax liability, and written back an amount to the extent of ₹2,150 crores to the profit and loss account. This is arising from a re-estimation of deferred tax liability assuming that the Company would migrate to the new tax regime at a future date.

Accordingly, the Company reported net profit of ₹ 2,917 crores for the quarter.

The Company's net gearing (Net Debt to Equity) stood at 1.19x at the end of the quarter (as against 1.20x at the end of Q1 FY2020) and Net Debt to EBITDA stood at 2.90x (as against 2.49x at the end of Q1 FY2020).

Subsidiaries' Performance:

JSW Steel Coated Products:

During the quarter, JSW Steel Coated Products registered a production volume of 0.42 million tons and sales volume of 0.43 million tonnes. Revenue from operations and operating EBITDA for the quarter stood at ₹2,788 crores and ₹153 crores respectively. Pursuant to the changes to the Corporate Tax regime, the Company has opted to move to the new tax regime from FY2020 onwards. This has resulted in a write back of tax liabilities amounting to ₹ 101 crores during the quarter. Accordingly, Net Profit after Tax stood at ₹ 157 crores for the quarter.

US Plate and Pipe Mill:

The US based Plate and Pipe Mill facility produced 58,106 net tonnes of Plates and 15,746 net tonnes of Pipes, operating at a capacity utilization of 25% and 11%, respectively, during the quarter. Sales volumes for the quarter stood at 53,333 net tonnes of Plates and 7,020 net tonnes of Pipes. It reported EBITDA loss of \$11.2 million for the quarter, mainly due to lower realization and inventory write-down of ~\$3.5 million.

JSW Steel USA Ohio (Acero):

The US based HR coil manufacturing facility produced 87,337 net tonnes of HRC during the quarter. Sales volumes for the quarter stood at 98,063 net tonnes. It reported EBITDA

loss of \$31.6 million for the quarter, which includes an inventory write-down of \$13.2 million.

JSW Steel Italy (Aferpi):

The Italy based Rolled long products manufacturing facility produced 130,897 tonnes and Sold 131,710 tonnes during the quarter. It reported EBITDA loss of 6.9 million Euros for the quarter.

Merger of Wholly-Owned Subsidiaries:

Pursuant to the amalgamation scheme approved by the Hon'ble NCLT, the wholly-owned subsidiaries of the Company – Dolvi Minerals and Metals Private Limited, Dolvi Coke Projects Limited, JSW Steel Processing Centre Limited and JSW Steel (Salav) Limited merged with the Company with the effective date of 1st September, 2019. Accordingly, the Company has accounted for these mergers under the pooling of interest method retrospectively for all periods presented in the results.

Consolidated Financial Performance:

Saleable Steel sales for the quarter stood at 3.56 million tonnes, lower by 9% YoY. Revenue from operations declined by 18% YoY to ₹17,572 crores for the quarter and Operating EBITDA stood at ₹2,731 crores. The Net Profit after Tax for the quarter was ₹2,536 crores, after incorporating the financials of subsidiaries (including the impact of tax changes in all subsidiaries) and joint ventures.

The Company's consolidated Net gearing (Net Debt to Equity) stood at 1.36x at the end of the quarter (as against 1.35x at the end of Q1 FY2020) and Net Debt to EBITDA stood at 3.23x (as against 2.72x at the end of Q1 FY2020).

Projects and Capex update:

Key projects viz. augmenting crude steel capacity at Dolvi Works from 5 to 10 MTPA, 12 to 13 MTPA expansion (except BF-3 enhancement) at Vijayanagar Works, capacity expansion of CRM-1 complex at Vijayanagar Works and certain other downstream projects are progressing satisfactorily towards commissioning.

In light of the prevailing market conditions, the company has recalibrated the capital expenditure plan of FY2020. The company has identified certain projects – comprising of some downstream projects (like continuous annealing line at Vasind Works, second tinplate line at Tarapur Works, color coating line at Rajpura etc.), certain special projects and some items of normal capex, and deferred ₹ 4,700 crore worth of spends to the next year. This implies a revised cash flow plan of ₹11,000 crores for the current fiscal year (vs previous guidance of ₹15,708 crore).

The actual cash outflow for 1H FY2020 is ₹ 4,955 crores.

Outlook

The IMF revised its 2019 world GDP growth forecast to 3.0% (from 3.2% earlier) on the back of sluggish economic indicators, especially pertaining to global manufacturing over the last 3 months. After a strong growth in 2018 and robust labor markets, the US growth outlook has softened as reflected by key economic indicators. The Fed's accommodative policies are supportive for moderate economic expansion. Euro area growth remains fragile given contraction in industrial growth, subdued private consumption and trade / political uncertainties. Japan growth outlook is subdued as headwinds of external trade weakness and fiscal impulse fades away. As expected, Chinese growth has slowed down, while policymakers are likely to facilitate proactive fiscal and monetary measures to mitigate the downward pressure on economy.

Overall, ongoing trade tensions and heightened geopolitical tensions contribute to elevated risks. On the other hand, a possible resolution of the on-going trade tensions and combination of fiscal and monetary policies are likely to aid global recovery.

Global steel spreads remained under pressure during the quarter, mainly driven by a moderation in the underlying demand and steel pricing. Spreads were partially supported as seaborne coking coal prices dropped sharply, while sea-borne iron ore prices remain range bound. A disciplined supply response from steel mills should be supportive for steel spreads in the coming quarters.

Indian economic activities during the quarter were underpinned by credit squeeze, weakened consumer sentiment and prolonged monsoon season. As a result, IIP growth and manufacturing PMI dropped sharply.



The Government has undertaken a series of measures including reduction in corporate tax rate, unclogging pending government payments, GST refunds, etc. Further, the government is mulling measures to monetise investments in order to generate resources for infrastructure investment. The combination of above measures is likely to support an uptick in GFCF cycle over the medium term.

Weaker automotive sales volumes and consumer durables sales in recent months is a matter of concern. Having said that a modest recovery is expected on the back of festivity demand and various initiatives of government to facilitate credit availability in the system. A better than normal monsoon bodes well for farm incomes and a potential uptick in rural demand. Overall, supportive fiscal and monetary measures are likely to spur investment and consumer demand over the medium term.

Despite the ongoing slowdown in the domestic economy, Indian steel demand is expected to grow by 5% during FY2020. This, admittedly, has also made India a magnet to attract higher imports from steel surplus economies, especially from the FTA countries (like South Korea, Japan, ASEAN etc) given nil duty at the time of imports. Currently, about 65% of steel imports into India originates from the FTA countries - including China to this, the share of imports from this group increases to 85%. This is a source of risk to the health of the domestic steel industry necessitating close monitoring and effective remedial measures.

About JSW Steel Ltd.: JSW Steel Ltd. is the flagship company of the diversified US\$ 14 billion JSW Group which has a leading presence in sectors such as steel, energy, infrastructure, cement, sports among others. From a single manufacturing unit in the early 1980s, JSW Steel Ltd, today, is one of the foremost integrated steel company in India with an installed capacity of 18 MTPA, and has plans to scale it up in India and overseas. JSW Steel's manufacturing facility at Vijayanagar, Karnataka is the largest single location steel-producing facility in India with a capacity of 12 MTPA. The Company has been at the forefront of state-of-the-art, cutting-edge technology, research and innovation while laying the foundation for long-term growth. Strategic collaborations with global technology leaders to offer high-value special steel products for various applications across construction, automobile, appliances and other sectors. JSW Steel Ltd. has been widely recognised for its business and operational excellence. Key awards include Deming Prize

for Total Quality Management at Vijayanagar (2018), DJSI RobecoSAM Sustainability Industry Mover Award (2018) among others.

Forward looking and Cautionary Statements:

Certain statements in this release concerning our future growth prospects are forward looking statements, which involve a number of risks, and uncertainties that could cause actual results to differ materially from those in such forward looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition within Steel Industry including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, our ability to manage our internal operations, reduced demand for steel, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, the success of the companies in which – has made strategic investments, withdrawal of fiscal governmental incentives, political instability, legal restrictions on raising capital or acquiring companies outside India, unauthorized use of our intellectual property and general economic conditions affecting our industry. The Company does not undertake to update any forward looking statements that may be made from time to time by or on behalf of the Company.

Media contact:

JSW Group Corporate Communications

Frederick Castro

Mobile: +91 99206 65176

Email: frederick.castro@jsw.in

Mithun Roy

Mobile: +91 98190 00967

Email: mithun.roy@jsw.in

