

## Dolvi Phase 2 expansion of 5 MT for flat steel products

**About the stock:** JSW Steel is one of the leading integrated steel companies in India. It has a strategic collaboration with global leader JFE Steel of Japan, enabling JSW to access new and state-of-the-art technologies to produce and offer high value special steel products to its customers.

- JSW Steel's manufacturing unit in Vijayanagar, Karnataka is the largest single location steel-producing facility in India with a capacity of 12 MTPA
- JSW Steel is the only Indian steel company to be ranked among the top 15 global steel producers by World Steel Dynamics for 13 consecutive years

### Key Highlights of JSW Steel's Dolvi plant visit

- JSW Steel's 10 million tonnes per annum (MTPA) integrated steel plant at Dolvi is located in Maharashtra on the Indian west coast. The plant is connected to Dharamtar Jetty (cargo handling capacity of 28 MTPA) and has a total area of 1400+ acres. Going forward, in the longer run, the company plans to increase the capacity at Dolvi by further ~4-4.5 MT. JSW Steel is currently working on project configuration & land acquisition
- JSW Steel's Dolvi plant is largely focused towards flat steel production (~85%). Of the total 10 million tonnes (MT) capacity at Dolvi, ~8.5 MT is for flat steel products & ~1.5 MT is for long steel products. In terms of phase-wise breakup, out of Phase 1 capacity of 5 MT, ~3.5 MT is for flat steel products (HRC) & balance ~1.5 MT is for long steel products (TMT Rebars). Phase 2 capacity of 5 MT is for fully for flat steel products (HRC)

**What should investors do?** JSW Steel's share price has given a return of ~19% over the last one year (from ~₹ 623 in December 2021 to ~₹ 740 in December 2022).

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value JSW Steel at ₹ 725, 6.5x FY24E EV/EBITDA.

### Key triggers for future price performance:

- The 5 MTPA phase II expansion at Dolvi commenced integrated steel operations in October 2021 while commercial production started in November 2021. Its Phase II expansion is more cost effective, wherein conversion cost for Phase II is ~₹ 4500/tonne lower than that of Phase I
- For the JSW Steel standalone entity, going forward, we model EBITDA/tonne of ₹ 8000/tonne for FY23E and ₹ 12500/tonne for FY24E

**Alternate Stock Idea:** In our metals and mining sector coverage, we like Hindalco.

- Hindalco is the world's largest aluminium company by revenues and a major player in copper
- BUY rating with a target price of ₹ 500



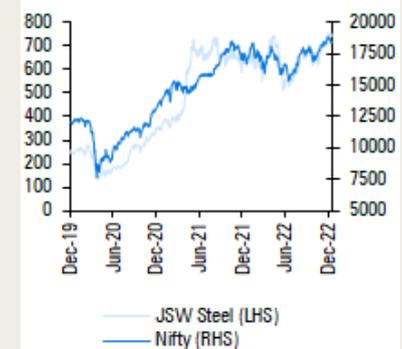
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,80,500
Debt-Cons. (Q2FY23) (₹ Crore)	79,010
Cash and Cash Eq. Cons. (Q2FY23) (₹ Crore)	13,291
EV (₹ Crore)	2,46,219
52 week H/L	₹ 790 / 520
Equity capital	₹ 240 crore
Face value	₹ 1

### Shareholding Pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	44.7	45.0	45.0	45.2
FII's	11.2	11.6	10.6	10.8
DII's	8.4	7.9	9.1	9.3
Others + Public	35.7	35.5	35.3	34.8
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### Price Chart



### Key Risks

- Higher than expected increase in steel prices
- Higher than expected rise in operating costs

### Research Analyst

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	CAGR (FY17-FY22 in %)	FY23E	FY24E	CAGR (FY22-FY24E in %)
Net Sales	84,757	73,326	79,839	1,46,371	21%	1,59,906	1,74,975	9%
EBITDA	18,952	11,873	20,141	39,007	26%	21,763	35,344	-5%
EBITDA Margin (%)	22.4	16.2	25.2	26.6		13.6	20.2	
Reported PAT	7,524	3,919	7,873	20,938	43%	7,169	16,704	-11%
EPS (₹)	31.3	16.2	32.7	87.3		29.9	69.7	
EV/EBITDA (x)	11.5	6.0	11.0	6.6		11.0	6.6	
RoCE (%)	17.6	7.5	13.9	23.2		8.8	15.2	
RoE (%)	21.7	12.9	17.2	31.6		9.6	18.7	

Source: Company, ICICI Direct Research

Exhibit 1: Dolvi Plant: Overview

### Dolvi Plant: Overview



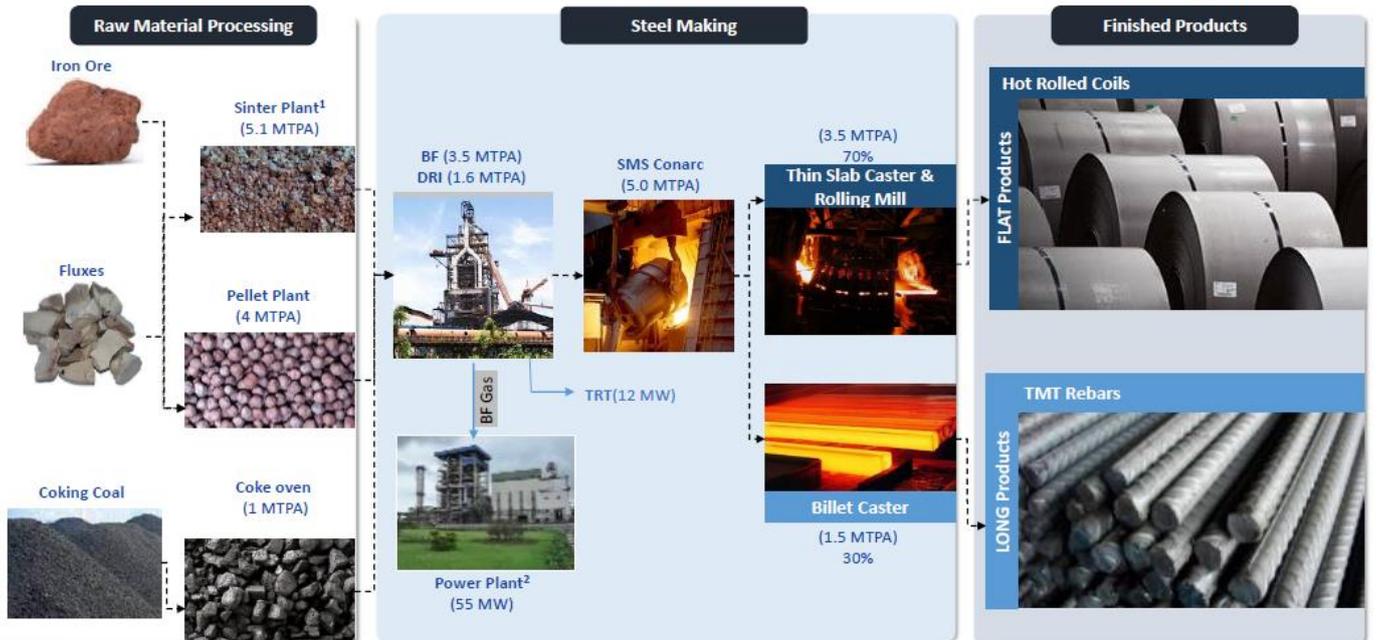
- The 10 MTPA integrated steel plant at Dolvi is advantageously located in the state of Maharashtra on the West coast of India
- JSW Steel acquired the 3.3 MTPA Dolvi plant in 2010, and has increased the capacity to 10 MTPA through brownfield expansions
- Plant is connected to Dharamtar Jetty (cargo handling capacity of 28 MTPA); total area of 1400+ acres
- Dolvi manufactures products that meet the needs of companies across sectors: Automotive, Consumer Durables, Oil & Gas, Infrastructure and Construction



Source: Company, ICICI Direct Research

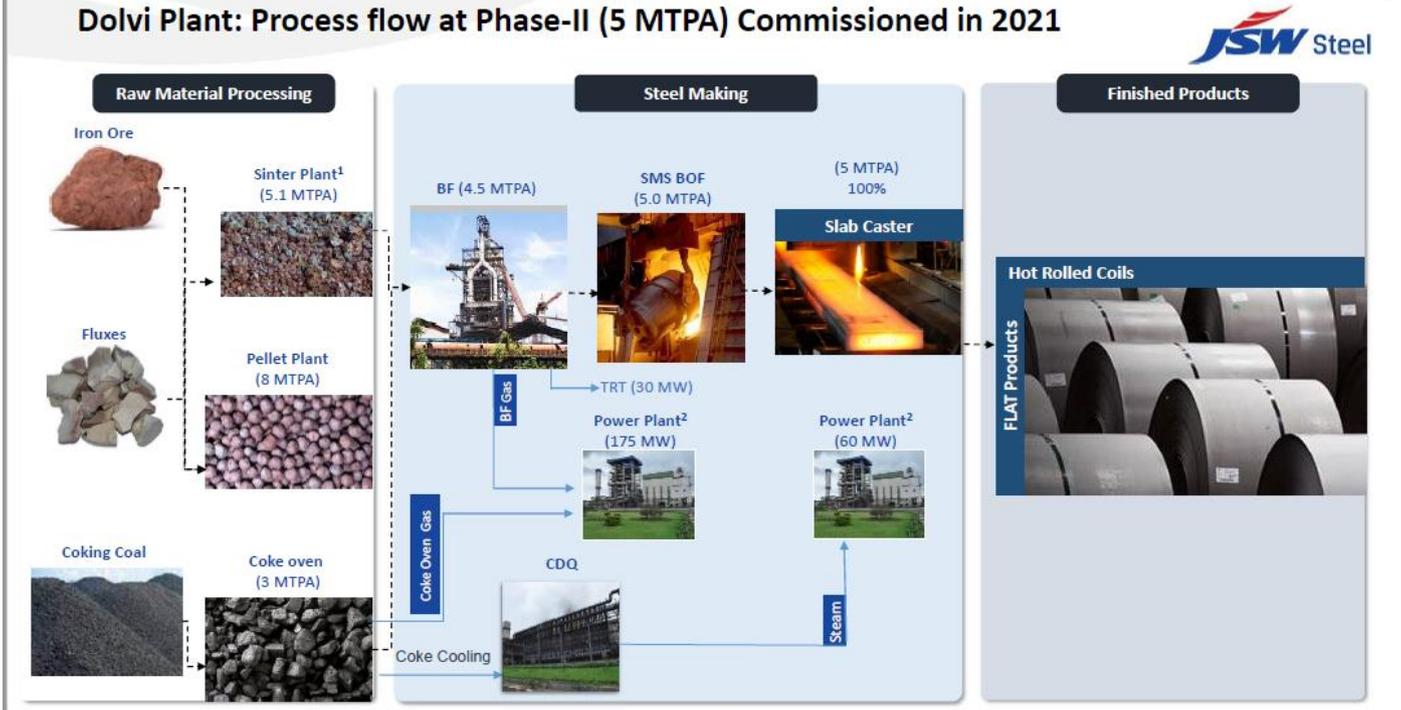
Exhibit 2: Dolvi Plant: Process flow at Phase-I (5 million tonnes per annum)

### Dolvi Plant: Process flow at Phase-I (5 MTPA)



Source: Company, ICICI Direct Research

Exhibit 3: Dolvi Plant: Process flow at Phase – II (5 million tonnes per annum) commissioned in 2021



Source: Company, ICICI Direct Research

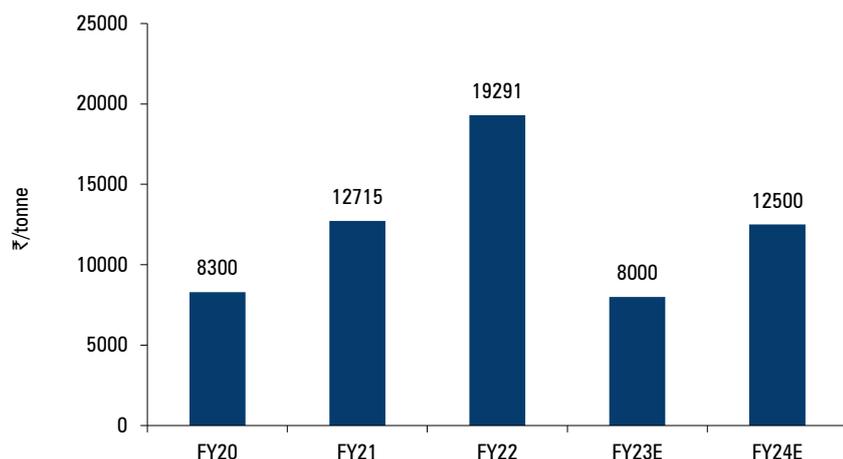
Exhibit 4: Dolvi Plant : Product portfolio and applications



Source: Company, ICICI Direct Research

## Financial story in charts

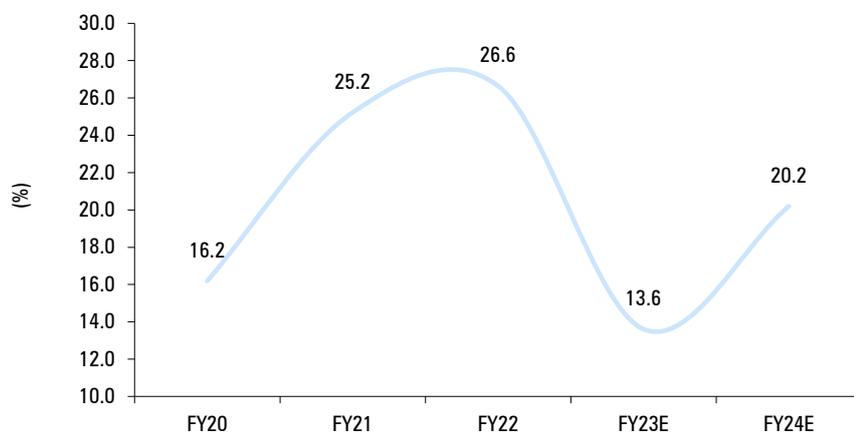
Exhibit 5: Trend in standalone EBITDA/tonne margin level (in ₹/tonne)



We model standalone EBITDA/tonne of ₹ 8000/tonne for FY23E and ₹ 12500/tonne for FY24E

Source: Company, ICICI Direct Research

Exhibit 6: Trend in consolidated EBITDA margin (in %)



Over the next couple of years, we expect consolidated EBITDA margin to be ~13.6% in FY23E and ~20.2% for FY24E

Source: Company, ICICI Direct Research

Exhibit 7: Valuation Matrix

	Sales (₹ Crore)	Growth (% YoY)	EPS (₹)	Growth (% YoY)	PE (x)	EV/EBIDTA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
FY19	84,757	20.7	31.3	23.6	23.9	11.9	5.2	21.7	17.6
FY20	73,326	-13.5	16.2	-48.1	46.0	19.6	4.9	12.9	7.5
FY21	79,839	8.9	32.7	101.7	22.8	11.5	3.9	17.2	13.9
FY22	1,46,371	83.3	87.3	167.1	8.5	6.0	2.6	31.6	23.2
FY23E	1,59,906	9.2	29.9	-65.8	24.9	11.0	2.4	9.6	8.8
FY24E	1,74,975	9.4	69.7	133.0	10.7	6.6	2.0	18.7	15.2

Source: Company, ICICI Direct Research

## Financial summary (Consolidated)

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total operating Income</b>	<b>79,839</b>	<b>1,46,371</b>	<b>1,59,906</b>	<b>1,74,975</b>
Growth (%)	9	83	9	9
Total Operating Expenditure	59698	107364	138144	139631
<b>EBITDA</b>	<b>20,141</b>	<b>39,007</b>	<b>21,763</b>	<b>35,344</b>
EBITDA Margin (%)	25.2	26.6	13.6	20.2
Depreciation	4,679	6,001	7,539	7,863
Interest	3,957	4,968	5,818	5,491
Other Income	592	1,531	1,330	1,285
<b>PBT</b>	<b>12,097</b>	<b>29,569</b>	<b>9,735</b>	<b>23,274</b>
Exceptional Item	-83	-741	0	0
Total Tax	4,142	8,807	2,920	6,982
<b>Reported PAT Before MI</b>	<b>7,872</b>	<b>20,021</b>	<b>6,814</b>	<b>16,292</b>
Less - Minority Interest	1	917	355	412
<b>Reported PAT after MI</b>	<b>7,873</b>	<b>20,938</b>	<b>7,169</b>	<b>16,704</b>
Growth (%)	105	166	-66	133
<b>Adj PAT</b>	<b>7,956</b>	<b>21,679</b>	<b>7,169</b>	<b>16,704</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Profit after Tax</b>	<b>7,873</b>	<b>20,938</b>	<b>7,169</b>	<b>16,704</b>
Add: Depreciation	4,679	6,001	7,539	7,863
(Inc)/dec in Current Asset	-67	-26,793	-333	-608
Inc/(dec) in CL&Provisions	4,832	16,699	-365	736
Others	-2,568	4,112	245	124
<b>CF from operating activities</b>	<b>14,749</b>	<b>20,957</b>	<b>14,255</b>	<b>24,818</b>
(Inc)/dec in Investments	-7,667	-604	-850	-225
(Inc)/dec in Fixed Assets	-8,232	-14,198	-15,000	-19,124
Others	328	-169	50	50
<b>CF from investing activities</b>	<b>-15,571</b>	<b>-14,971</b>	<b>-15,800</b>	<b>-19,299</b>
Issue/(Buy back) of Equity	0	-2	0	0
Inc/(dec) in loan funds	-41	8,604	-1,004	200
Dividend paid & dividend tax	-1,593	-4,187	-1,079	-2,038
Inc/(dec) in Sec. premium	0	0	0	0
Others	3,266	-5,831	0	0
<b>CF from financing activities</b>	<b>1,632</b>	<b>-1,416</b>	<b>-2,083</b>	<b>-1,838</b>
Net Cash flow	810	4,570	-3,627	3,682
Opening Cash	12,003	12,813	17,383	13,756
<b>Closing Cash</b>	<b>12,813</b>	<b>17,383</b>	<b>13,756</b>	<b>17,438</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Share Capital	241	240	240	240
Reserve and Surplus	45,903	68,295	74,386	89,052
Total Shareholders funds	46,144	68,535	74,626	89,292
Total Debt	65,436	74,040	73,036	73,236
Deferred Tax Liability	3,509	7,621	7,866	7,990
Minority Interest / Others	3,637	3,468	3,518	3,568
<b>Total Liabilities</b>	<b>1,18,726</b>	<b>1,53,664</b>	<b>1,59,046</b>	<b>1,74,086</b>
<b>Assets</b>				
Gross Block	1,08,864	1,50,211	1,63,733	1,81,379
Less: Acc Depreciation	47,630	53,631	60,108	66,908
Net Block	61,234	96,580	1,03,625	1,14,470
Capital WIP	32,433	16,756	17,171	17,586
Net Fixed Assets (Inc CWIP)	93,667	1,13,336	1,20,796	1,32,056
Investments	12,397	13,001	13,851	14,076
Inventory	14,249	33,787	32,966	32,899
Debtors	4,486	7,457	7,611	8,437
Loans and Advances	6,409	8,250	9,050	8,850
Other Current Assets	4,296	6,739	6,939	6,989
Cash	12,813	17,383	13,756	17,438
<b>Total Current Assets</b>	<b>42,253</b>	<b>73,616</b>	<b>70,322</b>	<b>74,613</b>
Current Liabilities	29,316	46,033	45,668	46,403
Provisions	274	256	256	256
<b>Total Current Liabilities</b>	<b>29,590</b>	<b>46,289</b>	<b>45,924</b>	<b>46,659</b>
Net Current Assets	12,663	27,327	24,399	27,954
Deferred tax Assets (net)	0	0	0	0
<b>Application of Funds</b>	<b>1,18,726</b>	<b>1,53,664</b>	<b>1,59,046</b>	<b>1,74,086</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Reported EPS	32.7	87.3	29.9	69.7
Cash EPS	51.9	111.4	60.9	101.6
BV	190.9	283.5	308.7	369.4
DPS	6.5	17.4	4.5	8.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	25.2	26.6	13.6	20.2
PBT / Total Operating income	15.2	20.2	6.1	13.3
Adj PAT Margin	10.0	14.8	4.5	9.5
Inventory days	160	150	135	135
Debtor days	21	25	20	20
Creditor days	134	110	120	110
<b>Return Ratios (%)</b>				
Adj RoE	17.2	31.6	9.6	18.7
Adj RoCE	13.9	23.2	8.8	15.2
Adj RoIC	15.6	25.5	9.7	16.7
<b>Valuation Ratios (x)</b>				
P/E	22.8	8.5	24.9	10.7
EV / EBITDA	11.5	6.0	11.0	6.6
EV / Net Sales	2.9	1.6	1.5	1.3
Market Cap / Sales	2.2	1.2	1.1	1.0
Price to Book Value	3.9	2.6	2.4	2.0
<b>Solvency Ratios</b>				
Net Debt/EBITDA	2.6	1.5	2.7	1.6
Net Debt / Equity	1.1	0.8	0.8	0.6
Current Ratio	1.4	1.6	1.5	1.6
Quick Ratio	1.0	0.9	0.8	0.9
Net debt/EBITDA	2.6	1.5	2.7	1.6
Net Debt/Equity	1.1	0.8	0.8	0.6

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: < -15%



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