

## Healthy operational performance...

**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

**Q3FY23 Results:** JSW Steel reported healthy operational performance for Q3FY23; wherein consolidated topline, EBITDA and PAT came in higher than our estimate.

- JSW Steel standalone operations reported quarterly saleable steel sales volumes of 4.95 million tonnes (MT), up 24% YoY, higher than our estimate of 4.8 MT. Standalone operations reported EBITDA/tonne of ₹ 8141/tonne (our estimate of ₹ 7000/tonne). Standalone EBITDA/tonne came in higher than our estimate, primarily on the back of lower coking coal costs
- For Q3FY23, JSW Steel reported consolidated topline of ₹ 39134 crore, up 3% YoY but down 6% QoQ (our estimate: ₹ 39120 crore)
- Consolidated EBITDA for the quarter was at ₹ 4547 crore, up 160% QoQ, higher than our estimate of ₹ 3685 crore. Ensuing consolidated PAT for the quarter was at ₹ 474 crore, higher than our estimate of ₹ 353 crore

**What should investors do?** JSW Steel's share price has given a return of ~96% over the last two years (from ~₹ 378 in January 2021 to ~₹ 741 in January 2023).

- We maintain our **HOLD** rating on the stock. On the back of an improving operating environment, we upward revise our EV/EBITDA multiple to 7x (from 6.5x earlier)

**Target Price and Valuation:** We value JSW Steel at ₹ 825, 7x FY24E EV/EBITDA.

### Key triggers for future price performance:

- For Q4FY23, blended steel realisations are expected to be higher than Q3FY23 level while iron ore and coking coal costs are expected to remain range bound sequentially in Q4FY23 compared with Q3FY23
- For JSW Steel standalone entity, going forward, we model EBITDA/tonne of ₹ 7500/tonne for FY23E and ₹ 13000/tonne for FY24E

**Alternate Stock Idea:** In our metal and mining coverage we like Midhani.

- Midhani is a leading manufacturer of special steel, super alloys and titanium alloys catering to niche end-user segments like space, defence, etc
- BUY rating with a target price of ₹ 285



### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,79,225
Debt-Cons. (Q3FY23) (₹ Crore)	80,674
Cash and Cash Eq. Cons. (Q3FY23) (₹ Crore)	11,176
EV (₹ Crore)	2,48,723
52 week H/L	₹ 790 / 520
Equity capital	₹ 240 crore
Face value	₹ 1

### Shareholding Pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	45.0	45.0	45.2	45.2
FIIs	11.6	10.6	10.8	11.0
DII's	7.9	9.1	9.3	9.3
Others + Public	35.5	35.3	34.8	34.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</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%	1,68,096	1,89,592	14%
EBITDA	18,952	11,873	20,141	39,007	26%	19,011	36,445	-3%
EBITDA Margin (%)	22.4	16.2	25.2	26.6		11.3	19.2	
Reported PAT	7,524	3,919	7,873	20,938	43%	3,954	16,260	-12%
EPS (₹)	31.3	16.2	32.7	87.3		19.0	67.8	
EV/EBITDA (x)	11.4	6.0	12.7	6.4		12.7	6.4	
RoCE (%)	17.6	7.5	13.9	23.2		7.9	16.4	
RoE (%)	21.7	12.9	17.2	31.6		5.5	19.2	

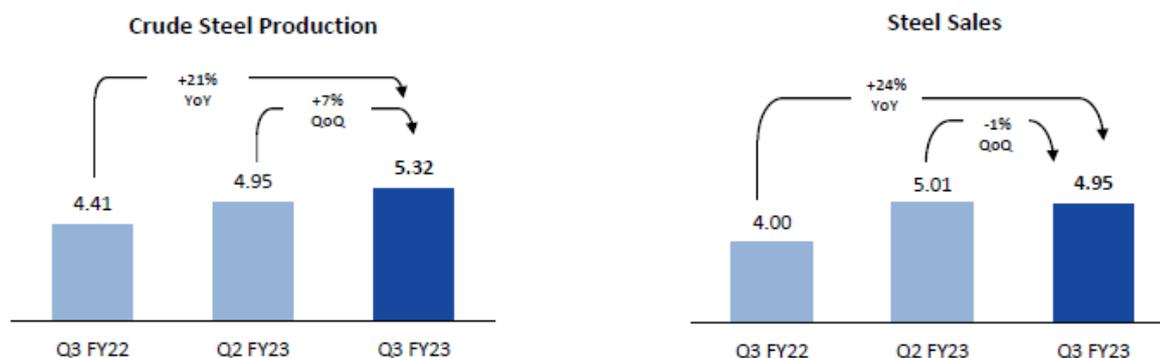
Source: Company, ICICI Direct Research

## Key takeaways from conference call

- For Q4FY23, blended steel realisations are expected to be higher than Q3FY23 level. Sequentially realisations are expected to trend higher in Q4FY23, in line with global steel prices
- For Q3FY23, sequentially coking coal cost declined by ~US\$100/tonne when compared with Q2FY23. Coking coal costs are expected to remain range bound in Q4FY23 when compared with Q3FY23. Similarly, iron ore costs are also expected to remain range bound in Q4FY23 when compared with Q3FY23
- For FY23, the production and sales volume guidance remains unchanged for Indian operations viz. 23.6 million tonne (MT) (production) and 22.6 MT (sales), respectively. There could be some shortfall in the balance 1.4 MT guidance, which was for the US- Ohio operations and JSW Ispat Special Products (JISPL) combined.
- For Q3FY23, JSW Steel standalone operations crude steel production was at 5.32 MT, up 21% YoY and 7% QoQ, primarily due to better utilisation of Dolvi Phase – II. Sales of saleable steel at the standalone level were 4.95 MT for the quarter, up 24% YoY but marginally down 1% QoQ due to lower export volumes.
- During the quarter, the combined crude steel production of JSW Steel was 6.24 MT, up 10% QoQ, mainly due to the ramp-up of 5 million tonnes per annum (MTPA) Dolvi Phase – II expansion, which achieved capacity utilisation of 85% compared to 80% in Q2FY23. Restarting of facilities at JSW Ispat Special Products (JISPL), after a maintenance shutdown that had commenced in Q2FY23, and ongoing ramp-up of Bhushan Power and Steel (BPSL) operations after expansion from 2.75 MTPA to 3.5 MTPA capacity, also contributed to higher production
- JSW Steel's capex spend was to the tune of ₹ 4114 crore in Q3FY23 and ₹ 10707 crore during 9MFY23 against the revised planned capex spend of ₹ 15000 crore for FY23
- The 5 MTPA brownfield expansion at Vijayanagar is progressing well, with civil works underway at the site. Long lead-time items have been ordered, and letters of credit established. Equipment erection has commenced for all packages. The project is expected to be completed by the end of FY24
- The Phase – II expansion at BPSL from 3.5 MTPA to 5 MTPA remains on track for completion by FY24
- The company's consolidated net gearing (net debt to equity) was at 1.09x at the end of Q3FY23 (compared to 1.04x at the end of Q2FY23) while net debt to EBITDA was at 3.51x at the end of Q3FY23 (compared to 2.70x at the end of Q2FY23)
- Net debt as of December 31, 2022 was at ₹ 69498 crore, higher by ₹ 3779 crore compared to September 30, 2022 due to higher working capital and forex impact. Going forward, the management expects net debt to trend lower due to favourable currency movement and reduction in inventory

Exhibit 1: JSW Steel – Standalone operations – Quarterly volumes

### Quarterly Volumes – Standalone



	Q3 FY22	Q2 FY23	Q3 FY23
Flat	3.15	3.57	3.89
Long	0.99	1.10	1.17

	Q3 FY22	Q2 FY23	Q3 FY23
Flat	3.00	3.60	3.70
Long	0.88	1.18	1.14
Semis	0.12	0.23	0.10

Source: Company, ICICI Direct Research

Exhibit 2: JSW Steel – Production and sales summary - Q3FY23

### Q2 FY23 Production & Sales Summary



In million metric tonnes

Particulars	Q3 FY23		9M FY23	
	Crude Steel Production	Sales	Crude Steel Production	Sales
Consolidated Indian Operations	6.06	5.55	17.25	15.51
Joint Control Entity:				
JSW Ispat Special Products Ltd.	0.10	0.08	0.23	0.24
Indian Operations incl. Joint Control*	6.16	5.63	17.48	15.75
JSW Steel USA Ohio	0.08	0.08	0.32	0.34
<b>Total Combined Volumes</b>	<b>6.24</b>	<b>5.71</b>	<b>17.80</b>	<b>16.09</b>

Source: Company, ICICI Direct Research

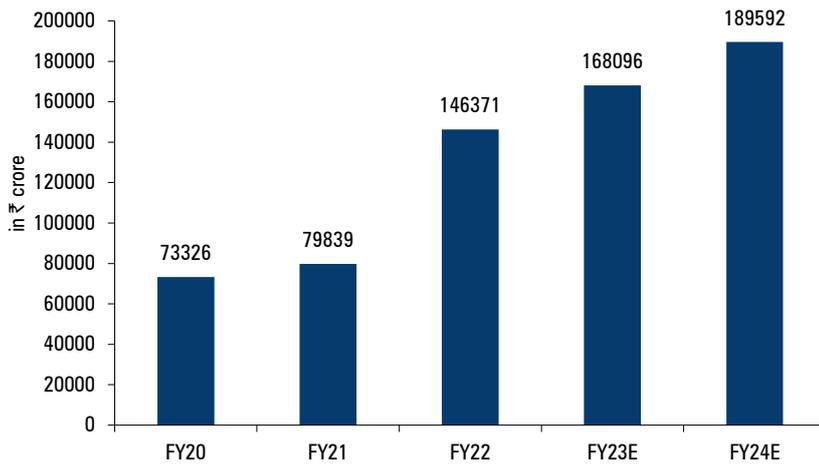
**Exhibit 3: Variance Analysis (Consolidated, except for sales volume and EBITDA/tonne, which are for standalone operations)**

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
<b>Total Operating Income</b>	<b>39134</b>	<b>39120</b>	<b>38071</b>	<b>3</b>	<b>41778</b>	<b>-6</b>	Consolidated topline came in broadly in line with our estimate
Other Income	188	185	154	22	188	0	
Total Operating expense	34587	35435	28939	20	40026	-14	
<b>EBITDA</b>	<b>4547</b>	<b>3685</b>	<b>9132</b>	<b>-50</b>	<b>1752</b>	<b>160</b>	Consolidated EBITDA came in higher than our estimate
EBITDA Margin (%)	11.6	9.4	24.0	-1237 bps	4.2	743 bps	Consolidated EBITDA margin came in higher than our estimate
Depreciation	1882	1825	1764	7	1805	4	
Interest	1819	1575	1283	42	1523	19	
Share of profit/ (loss) of Joint Ventures (net)	-56	0	22	PL	-56	0	
Exceptional Item	0	0	0	NA	591	PL	
<b>PBT</b>	<b>978</b>	<b>470</b>	<b>6261</b>	<b>-1</b>	<b>-853</b>	<b>LP</b>	
Tax Outgo	504	118	1745	-71	62	713	
<b>PAT for the Group</b>	<b>474</b>	<b>353</b>	<b>4516</b>	<b>-1</b>	<b>-915</b>	<b>PL</b>	Consolidated PAT came in higher than our estimate
<b>Key Metrics</b>							
Standalone Steel Sales (MT)	4.95	4.80	4.00	24	5.01	-1	Standalone sales volume came in higher than our estimate
Standalone EBITDA/tonne (₹)	8141	7000	16993	-52	3477	134	Standalone EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

## Financial story in charts

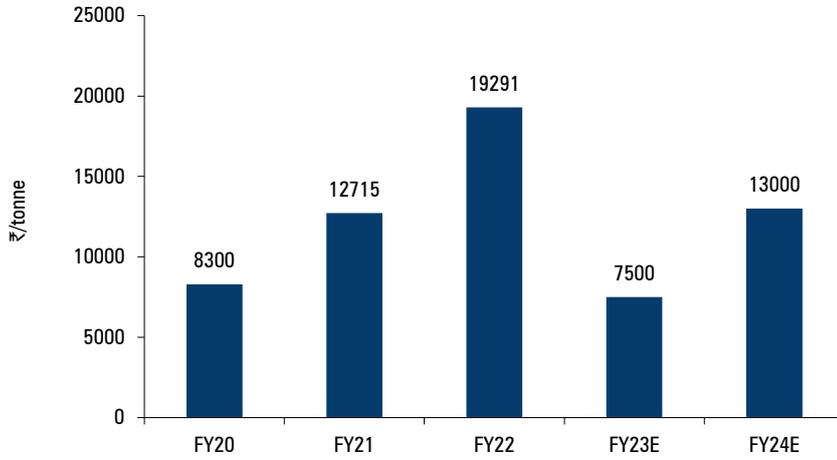
Exhibit 4: Trend in consolidated topline (in ₹ crore)



We expect JSW Steel's consolidated topline to register a CAGR growth of 14% during FY22-24E

Source: Company, ICICI Direct Research

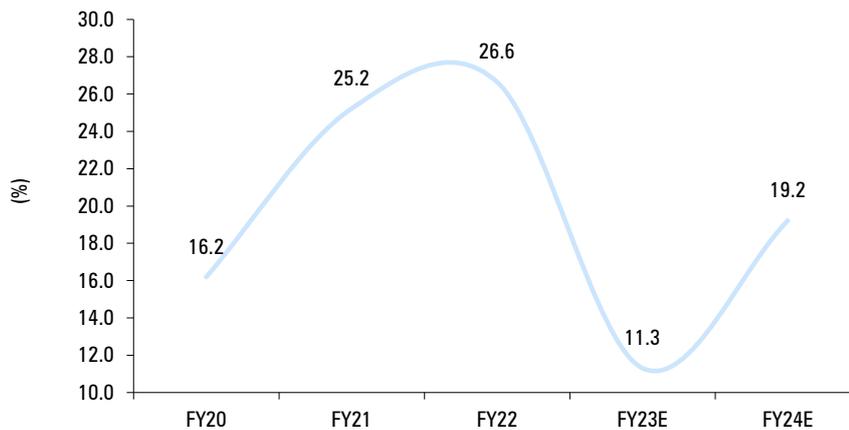
Exhibit 5: Trend in standalone EBITDA/tonne (in ₹/tonne)



We model standalone EBITDA/tonne of ₹ 7500/tonne for FY23E and ₹ 13000/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 ~11.3% in FY23E and ~19.2% 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	23.7	11.8	5.1	21.7	17.6
FY20	73,326	-13.5	16.2	-48.1	45.7	19.5	4.9	12.9	7.5
FY21	79,839	8.9	32.7	101.7	22.7	11.4	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	1,68,096	14.8	19.0	-78.3	39.1	12.7	2.5	5.5	7.9
FY24E	1,89,592	12.8	67.8	257.8	10.9	6.4	2.1	19.2	16.4

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>1,68,096</b>	<b>1,89,592</b>
Growth (%)	9	83	15	13
Total Operating Expenditure	59698	107364	149085	153147
<b>EBITDA</b>	<b>20,141</b>	<b>39,007</b>	<b>19,011</b>	<b>36,445</b>
EBITDA Margin (%)	25.2	26.6	11.3	19.2
Depreciation	4,679	6,001	7,216	7,863
Interest	3,957	4,968	6,473	6,146
Other Income	592	1,531	760	792
<b>PBT</b>	<b>12,097</b>	<b>29,569</b>	<b>6,082</b>	<b>23,228</b>
Exceptional Item	-83	-741	591	0
Total Tax	4,142	8,807	2,129	6,968
<b>Reported PAT Before MI</b>	<b>7,872</b>	<b>20,021</b>	<b>4,545</b>	<b>16,260</b>
Less - Minority Interest	1	917	0	0
<b>Reported PAT after MI</b>	<b>7,873</b>	<b>20,938</b>	<b>4,545</b>	<b>16,260</b>
Growth (%)	105	166	-78	258
<b>Adj PAT</b>	<b>7,956</b>	<b>21,679</b>	<b>3,954</b>	<b>16,260</b>
Reported EPS (₹)	32.7	87.3	19.0	67.8

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>4,545</b>	<b>16,260</b>
Add: Depreciation	4,679	6,001	7,216	7,863
(Inc)/dec in Current Asset	-67	-26,793	-3,977	1,432
Inc/(dec) in CL&Provisions	4,832	16,699	2,327	3,372
Others	-2,568	4,112	245	124
<b>CF from operating activities</b>	<b>14,749</b>	<b>20,957</b>	<b>10,355</b>	<b>29,051</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	-2,997
Inc/(dec) in Sec. premium	0	0	0	0
Others	3,266	-5,831	-591	0
<b>CF from financing activities</b>	<b>1,632</b>	<b>-1,416</b>	<b>-2,674</b>	<b>-2,797</b>
Net Cash flow	810	4,570	-8,118	6,956
Opening Cash	12,003	12,813	17,383	9,265
<b>Closing Cash</b>	<b>12,813</b>	<b>17,383</b>	<b>9,265</b>	<b>16,221</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	71,170	84,433
Total Shareholders funds	46,144	68,535	71,410	84,673
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>1,55,830</b>	<b>1,69,467</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	59,784	66,585
Net Block	61,234	96,580	1,03,949	1,14,794
Capital WIP	32,433	16,756	17,171	17,586
Net Fixed Assets (Inc CWIP)	93,667	1,13,336	1,21,120	1,32,380
Investments	12,397	13,001	13,851	14,076
Inventory	14,249	33,787	36,161	33,901
Debtors	4,486	7,457	8,060	9,238
Loans and Advances	6,409	8,250	9,050	8,850
Other Current Assets	4,296	6,739	6,939	6,789
Cash	12,813	17,383	9,265	16,221
<b>Total Current Assets</b>	<b>42,253</b>	<b>73,616</b>	<b>69,475</b>	<b>74,999</b>
Current Liabilities	29,316	46,033	48,360	51,732
Provisions	274	256	256	256
<b>Total Current Liabilities</b>	<b>29,590</b>	<b>46,289</b>	<b>48,616</b>	<b>51,988</b>
Net Current Assets	12,663	27,327	20,859	23,011
Deferred tax Assets (net)	0	0	0	0
<b>Application of Funds</b>	<b>1,18,726</b>	<b>1,53,664</b>	<b>1,55,830</b>	<b>1,69,467</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	19.0	67.8
Cash EPS	51.9	111.4	48.7	99.8
BV	190.9	283.5	295.4	350.3
DPS	6.5	17.4	4.5	12.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	25.2	26.6	11.3	19.2
PBT / Total Operating income	15.2	20.2	3.6	12.3
Adj PAT Margin	10.0	14.8	2.4	8.6
Inventory days	160	150	135	125
Debtor days	21	25	20	20
Creditor days	134	110	120	112
<b>Return Ratios (%)</b>				
Adj RoE	17.2	31.6	5.5	19.2
Adj RoCE	13.9	23.2	7.9	16.4
Adj RoIC	15.6	25.5	8.7	18.0
<b>Valuation Ratios (x)</b>				
P/E	22.7	8.5	39.1	10.9
EV / EBITDA	11.4	6.0	12.7	6.4
EV / Net Sales	2.9	1.6	1.4	1.2
Market Cap / Sales	2.2	1.2	1.1	0.9
Price to Book Value	3.9	2.6	2.5	2.1
<b>Solvency Ratios</b>				
Net Debt/EBITDA	2.6	1.5	3.4	1.6
Net Debt / Equity	1.1	0.8	0.9	0.7
Current Ratio	1.4	1.6	1.4	1.4
Quick Ratio	1.0	0.9	0.7	0.8
Net debt/EBITDA	2.6	1.5	3.4	1.6
Net Debt/Equity	1.1	0.8	0.9	0.7

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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