

January 26, 2024

## Q3FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>958</b>		<b>992</b>	
Sales (Rs. bn)	2,132	2,530	2,158	2,492
% Chng.	(1.2)	1.5		
EBITDA (Rs. bn)	342	406	370	415
% Chng.	(7.6)	(2.1)		
EPS (Rs.)	63.5	74.4	68.1	77.0
% Chng.	(6.8)	(3.3)		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. bn)	1,660	1,816	2,132	2,530
EBITDA (Rs. bn)	185	299	342	406
Margin (%)	11.2	16.5	16.0	16.1
PAT (Rs. bn)	36	122	153	180
EPS (Rs.)	14.7	50.3	63.5	74.4
Gr. (%)	(83.4)	242.0	26.3	17.2
DPS (Rs.)	3.4	5.0	7.0	8.0
Yield (%)	0.4	0.6	0.9	1.0
RoE (%)	5.3	17.0	18.2	18.1
RoCE (%)	7.7	14.6	15.5	17.3
EV/Sales (x)	1.5	1.4	1.2	1.0
EV/EBITDA (x)	13.8	8.6	7.6	6.1
PE (x)	55.5	16.2	12.8	11.0
P/BV (x)	3.0	2.6	2.2	1.8

### Key Data

**JSTL.BO | JSTL IN**

52-W High / Low	Rs.896 / Rs.649
Sensex / Nifty	70,701 / 21,353
Market Cap	Rs.1,995bn/ \$ 23,999m
Shares Outstanding	2,445m
3M Avg. Daily Value	Rs.1672.17m

### Shareholding Pattern (%)

Promoter's	45.22
Foreign	26.33
Domestic Institution	9.48
Public & Others	18.98
Promoter Pledge (Rs bn)	131.77

### Stock Performance (%)

	1M	6M	12M
Absolute	(4.6)	1.9	12.6
Relative	(4.1)	(4.4)	(4.1)

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# JSW Steel (JSTL IN)

**Rating: BUY | CMP: Rs816 | TP: Rs958**

## Rising costs to hit margins in near term

### Quick Pointers:

- Volumes to recover from 4Q as imports have reduced and ongoing expansion at BPSL to get commissioned by Mar'24.
- Iron ore costs to increase in coming quarters, however JSTL is working towards increasing iron ore self-sufficiency over medium term.

**We cut our FY25E/FY26E EBITDA estimates by 7%/2% on weak steel pricing and inching raw material prices. JSW Steel (JSTL) reported strong consolidated operating performance in 3Q, aided by subsidiaries despite 4% QoQ volume decline in standalone business. Although domestic demand was weak in 3Q, mgmt. reaffirmed FY24 production and sales volume target of 26.34mt and 25mt respectively; as demand is expected to remain strong in 4Q. JSTL is expected to deliver 15%+ volume CAGR over FY23-26E led by ongoing capacity additions and robust infrastructure activities in domestic market. JSTL expects domestic prices to inch up as global pricing is strong and China is taking steps to revive its economy. Also JSTL's rising focus on value added and specialized portfolio is expected to improve product mix and resilience for withstanding steel price volatility.**

**We believe JSTL with its superior execution skills will be key beneficiary of strong domestic demand scenario over next few years. We expect Revenue/EBITDA/PAT growth of 15%/30%/72% over FY23-26E. At CMP, stock is trading at 7.6x/6.1x EV of FY25E/FY26E EBITDA. Retain 'Buy' rating with revised TP of Rs958 (earlier Rs992) valuing at 7x EV of Mar'26E EBITDA.**

**Subsidiaries outperforms:** Cons. revenues grew 7.2% YoY to Rs419.4bn on strong operating performance from India and subsidiaries. Average std. Realization grew 2.5% YoY to Rs 64,058 (higher than PLE of Rs 63,677/t) as steel prices inched upwards in the first half of the quarter. Sales volumes increased 5% YoY 5.2mt. JSW Ohio revenue grew 116% YoY to USD 142mn in 3Q.

**In line EBITDA/t:** Standalone EBITDA declined 16% QoQ to Rs 57.8bn (+43% YoY on lower base; better than PLE: Rs 56.7b) on higher RM costs and royalty premium and mining costs. EBITDA per ton at Rs 11,113 (+37% YoY/ -13% QoQ) was in line with PLE of Rs 11,115. Standalone volumes declined 4% QoQ to 5.2mt on account of higher imports in domestic markets. We expect volumes to improve going forward as BPSL capacity is coming onstream in 4Q which will drive volumes gradually.

**Concall highlights: (1)** JSTL has revised capex guidance for FY24 from Rs200bn to Rs180bn on account of some postponement of Vijayanagar assets to 1QFY25. **(2)** The landed cost of coking coal for 3Q was USD 252/t CFR. **(3)** Coking coal costs are expected to increase by USD 20-25t in 4Q **(4)** JSTL has iron ore mining capacity of 7mt from 9 mines in Karnataka and expects additional 4mt capacity by increasing EC limit at the existing facility **(5)** Production at three newly won iron ore mines is expected to begin in FY25 which shall give incremental capacity of 4.5mt, taking total Karnataka capacity to 15.5mt **(6)** Europe and China have seen USD 100/t and

USD 40/t steel price increase respectively in last few weeks **(7)** JSTL to build 4mtpa green steel plant on the west coast in two phases **(8)** In 3Q, captive iron ore met 1/3rd of the total requirement **(9)** To increase steelmaking capacity from 37 to 50mt, JSTL is eyeing expansion at Vijaynagar (~5mt) and Dolvi and Jharsuguda (4.5-5mt each expected) **(10)** There is potential to take price hikes in coming months given international prices have increased recently **(11)** Off the 300km slurry pipeline, 90km is already laid and welding work of 125km is done. The project is expected to commission in 2026. **(12)** 3Q Capacity utilization stood at 94% (91% for 9MFY24).

**Exhibit 1: Q3FY24 Consolidated Result Overview**

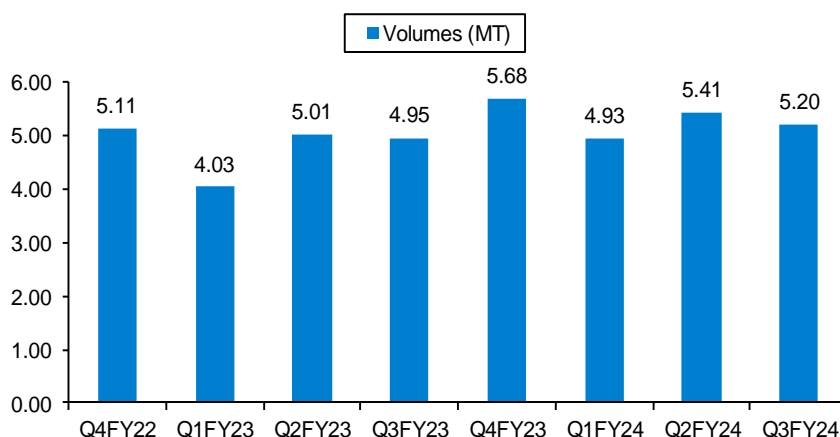
Y/e March (Rs bn)	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
<b>Net Sales</b>	<b>419.4</b>	<b>391.3</b>	<b>7.2</b>	<b>445.8</b>	<b>(5.9)</b>	<b>1,287.4</b>	<b>1,190.0</b>	<b>8.2</b>
Raw Material	201.5	212.4	(5.1)	241.9	(16.7)	654.3	677.5	(3.4)
<i>% of Net Sales</i>	<i>48.0</i>	<i>54.3</i>		<i>54.3</i>		<i>50.8</i>	<i>56.9</i>	
Purchase of traded goods	2.3	2.4	(2.5)	1.7	35.7	6.9	10.7	
<i>% of Net Sales</i>	<i>0.6</i>	<i>0.6</i>		<i>0.4</i>		<i>0.5</i>	<i>0.9</i>	
Staff Costs	11.8	10.2	16.0	11.0	7.7	34.4	29.1	18.3
<i>% of Net Sales</i>	<i>2.8</i>	<i>2.6</i>		<i>2.5</i>		<i>2.7</i>	<i>2.4</i>	
Power & Fuel	38.3	43.3	(11.4)	38.2	0.2	114.4	133.6	(14.4)
<i>% of Net Sales</i>	<i>9.1</i>	<i>11.1</i>		<i>8.6</i>		<i>8.9</i>	<i>11.2</i>	
Mining premium and royalties	27.2	17.6	54.6	18.2	49.7	74.6	47.0	58.6
<i>% of Net Sales</i>	<i>6.5</i>	<i>4.5</i>		<i>4.1</i>		<i>5.8</i>	<i>4.0</i>	
Other Expenses	66.5	60.1	10.6	56.0	18.8	181.8	186.0	(2.3)
<i>% of Net Sales</i>	<i>15.9</i>	<i>15.4</i>		<i>12.6</i>		<i>14.1</i>	<i>15.6</i>	
Total Expenditure	348	346	0.5	367	(5.3)	1,066	1,084	(1.6)
<b>EBITDA</b>	<b>71.8</b>	<b>45.5</b>	<b>57.9</b>	<b>78.9</b>	<b>(9.0)</b>	<b>221.1</b>	<b>106.1</b>	<b>108.4</b>
<i>Margin (%)</i>	<i>17.1</i>	<i>11.6</i>		<i>17.7</i>		<i>17.2</i>	<i>8.9</i>	
Depreciation	20.6	18.8	9.4	20.2	2.0	59.8	54.7	9.4
Other income	1.9	1.9	3.2	2.4	(18.1)	7.6	5.7	34.9
<b>EBIT</b>	<b>53</b>	<b>29</b>	<b>86.3</b>	<b>61</b>	<b>(12.9)</b>	<b>169</b>	<b>57</b>	<b>196.0</b>
Interest	20.0	18.2	9.7	20.8	(4.2)	60.4	47.6	26.8
<b>PBT</b>	<b>33.2</b>	<b>10.3</b>	<b>221.0</b>	<b>40.2</b>	<b>(17.4)</b>	<b>108.5</b>	<b>9.4</b>	<b>1,049.7</b>
Extraordinary income/(expense)	-	-		5.9		5.9	5.9	
<b>PBT (After EO)</b>	<b>33</b>	<b>10</b>	<b>221.0</b>	<b>46</b>	<b>(28.0)</b>	<b>114</b>	<b>15.3</b>	<b>645.4</b>
Tax	8.5	5.0	69.2	18.1	(52.9)	37.2	10.1	268.8
<i>% PBT</i>	<i>25.7</i>	<i>48.7</i>		<i>39.3</i>		<i>32.5</i>	<i>65.7</i>	
<b>Reported PAT</b>	<b>24.7</b>	<b>5.3</b>	<b>365.3</b>	<b>28.0</b>	<b>(11.8)</b>	<b>77.2</b>	<b>5.3</b>	<b>1,366</b>
Minority interest	0.4	(0.2)	NA	0.1	169.2	1.4	(0.8)	NA
Share of profit/(losses) in Associates	(0.2)	(0.6)	NA	(0.2)	(33.3)	(0.7)	(1.3)	NA
Net Profit attributable to shareholders	24.2	4.9	392.9	27.6	(12.5)	75.1	4.8	NA
<b>Adjusted PAT</b>	<b>24.2</b>	<b>4.9</b>	<b>392.9</b>	<b>23.9</b>	<b>1.0</b>	<b>71.2</b>	<b>0.7</b>	

Source: Company, PL

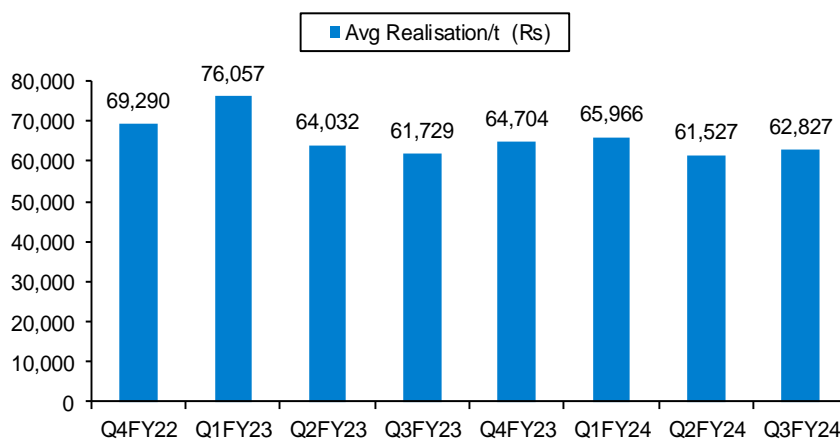
**Exhibit 2: Operating parameters (Standalone)**

Y/e March (Rs)	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Crude steel production (000 tonnes)	5,720	5,320	7.5	5,400	5.9	16,560	15,270	8.4
Sales (000 tonnes)	5,200	4,950	5.1	5,410	(3.9)	15,540	13,990	11.1
Realization per tonne	63,254	61,729	2.5	61,527	2.8	63,513	66,681	(4.8)
EBITDA per tonne	11,113	8,141	36.5	12,750	(12.8)	11,286	6,522	73.0
Cost per tonne	52,944	54,354	(2.6)	49,612	6.7	52,961	61,051	(13.3)

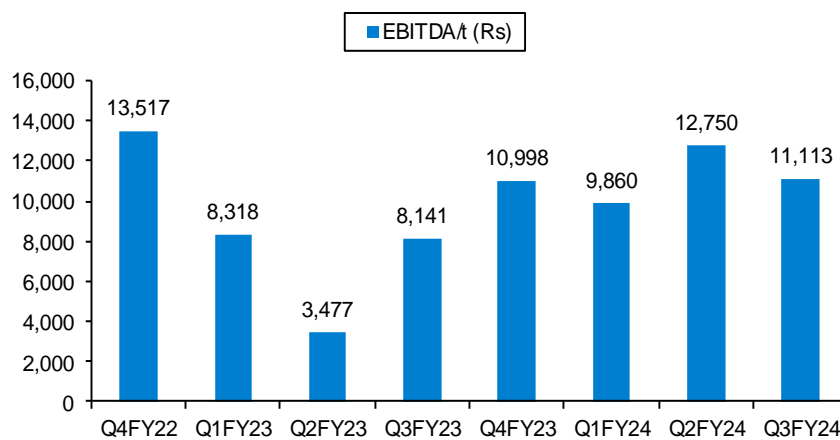
Source: Company, P

**Exhibit 3: Standalone volumes declined 4% QoQ affected by imports**


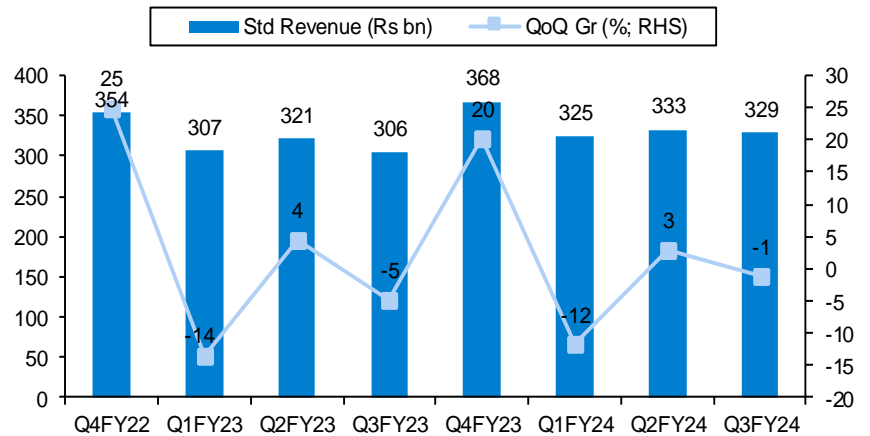
Source: Company, PL

**Exhibit 4: Average realization increased 3% QoQ**


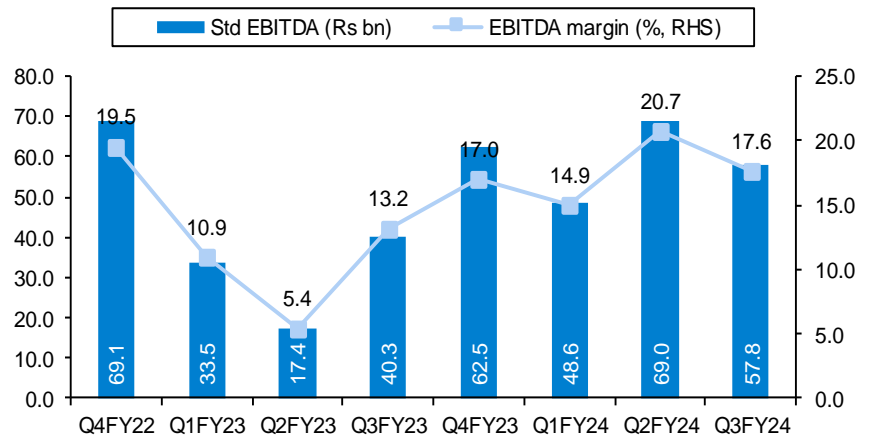
Source: Company, PL

**Exhibit 5: Higher royalty and mining led to 13% QoQ decline in EBITDA/t**


Source: Company, PL

**Exhibit 6: Volume decline led to std. revenue declining 1%**


Source: Company, PL

**Higher RM and royalties led to EBITDA declining by 16% QoQ**


Source: Company, PL

## Financials

### Income Statement (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>1,660</b>	<b>1,816</b>	<b>2,132</b>	<b>2,530</b>
YoY gr. (%)	13.4	9.4	17.4	18.7
Cost of Goods Sold	933	1,056	1,270	1,527
Gross Profit	726	760	862	1,004
Margin (%)	43.8	41.9	40.4	39.7
Employee Cost	39	29	31	33
Other Expenses	502	432	490	565
<b>EBITDA</b>	<b>185</b>	<b>299</b>	<b>342</b>	<b>406</b>
YoY gr. (%)	(52.5)	61.1	14.3	18.9
Margin (%)	11.2	16.5	16.0	16.1
Depreciation and Amortization	75	77	86	95
<b>EBIT</b>	<b>111</b>	<b>222</b>	<b>255</b>	<b>312</b>
Margin (%)	6.7	12.2	12.0	12.3
Net Interest	69	78	75	96
Other Income	10	9	11	12
<b>Profit Before Tax</b>	<b>58</b>	<b>154</b>	<b>191</b>	<b>227</b>
Margin (%)	3.5	8.5	9.0	9.0
Total Tax	15	36	46	56
Effective tax rate (%)	26.2	23.3	24.1	24.6
<b>Profit after tax</b>	<b>43</b>	<b>118</b>	<b>145</b>	<b>171</b>
Minority interest	0	(1)	(1)	(1)
Share Profit from Associate	(1)	3	8	8
<b>Adjusted PAT</b>	<b>36</b>	<b>122</b>	<b>153</b>	<b>180</b>
YoY gr. (%)	(83.4)	242.0	26.3	17.2
Margin (%)	2.1	6.7	7.2	7.1
Extra Ord. Income / (Exp)	6	-	-	-
<b>Reported PAT</b>	<b>41</b>	<b>122</b>	<b>153</b>	<b>180</b>
YoY gr. (%)	(79.9)	193.2	26.3	17.2
Margin (%)	2.5	6.7	7.2	7.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	41	122	153	180
<b>Equity Shares O/s (bn)</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>EPS (Rs)</b>	<b>14.7</b>	<b>50.3</b>	<b>63.5</b>	<b>74.4</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>1,390</b>	<b>1,578</b>	<b>1,763</b>	<b>1,909</b>
Tangibles	1,390	1,578	1,763	1,909
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>347</b>	<b>423</b>	<b>510</b>	<b>604</b>
Tangibles	347	423	510	604
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>1,043</b>	<b>1,155</b>	<b>1,254</b>	<b>1,305</b>
Tangibles	1,043	1,155	1,254	1,305
Intangibles	-	-	-	-
Capital Work In Progress	231	222	222	222
Goodwill	1	1	1	1
Non-Current Investments	97	100	108	116
Net Deferred tax assets	(68)	(68)	(84)	(104)
Other Non-Current Assets	60	60	60	60
<b>Current Assets</b>				
Investments	0	0	0	0
Inventories	331	319	403	474
Trade receivables	71	88	115	137
Cash & Bank Balance	208	196	188	291
Other Current Assets	44	56	70	82
<b>Total Assets</b>	<b>2,122</b>	<b>2,232</b>	<b>2,456</b>	<b>2,723</b>
<b>Equity</b>				
Equity Share Capital	3	3	3	3
Other Equity	654	767	909	1,072
<b>Total Networkth</b>	<b>657</b>	<b>770</b>	<b>912</b>	<b>1,075</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	804	808	808	808
Provisions	14	14	14	14
Other non current liabilities	26	26	26	26
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	382	378	442	524
Other current liabilities	135	132	134	137
<b>Total Equity &amp; Liabilities</b>	<b>2,122</b>	<b>2,232</b>	<b>2,457</b>	<b>2,724</b>

Source: Company Data, PL Research

**Cash Flow (Rs bn)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	57	154	191	227
Add. Depreciation	75	77	86	95
Add. Interest	67	78	75	96
Less Financial Other Income	10	9	11	12
Add. Other	11	(9)	(11)	(12)
Op. profit before WC changes	209	299	342	406
Net Changes-WC	31	(23)	(58)	(20)
Direct tax	(6)	(23)	(30)	(36)
<b>Net cash from Op. activities</b>	<b>233</b>	<b>253</b>	<b>254</b>	<b>351</b>
Capital expenditures	(149)	(188)	(185)	(146)
Interest / Dividend Income	6	9	11	12
Others	35	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(107)</b>	<b>(179)</b>	<b>(174)</b>	<b>(134)</b>
Issue of share cap. / premium	1	-	-	-
Debt changes	51	-	-	-
Dividend paid	(42)	(8)	(12)	(17)
Interest paid	(69)	(78)	(75)	(96)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(60)</b>	<b>(86)</b>	<b>(87)</b>	<b>(113)</b>
<b>Net change in cash</b>	<b>66</b>	<b>(12)</b>	<b>(8)</b>	<b>103</b>
Free Cash Flow	85	65	69	204

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	14.7	50.3	63.5	74.4
CEPS	45.6	81.9	99.1	113.6
BVPS	271.8	318.6	377.1	444.6
FCF	35.3	26.9	28.4	84.6
DPS	3.4	5.0	7.0	8.0
<b>Return Ratio(%)</b>				
RoCE	7.7	14.6	15.5	17.3
ROIC	6.7	12.9	13.3	15.6
RoE	5.3	17.0	18.2	18.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.9	0.8	0.7	0.5
Net Working Capital (Days)	5	6	13	12
<b>Valuation(x)</b>				
PER	55.5	16.2	12.8	11.0
P/B	3.0	2.6	2.2	1.8
P/CEPS	17.9	10.0	8.2	7.2
EV/EBITDA	13.8	8.6	7.6	6.1
EV/Sales	1.5	1.4	1.2	1.0
Dividend Yield (%)	0.4	0.6	0.9	1.0

Source: Company Data, PL Research

**Quarterly Financials (Rs bn)**

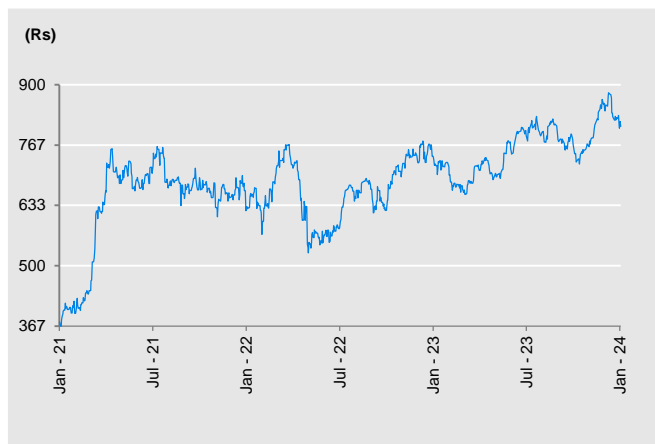
Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Net Revenue</b>	<b>470</b>	<b>422</b>	<b>446</b>	<b>419</b>
YoY gr. (%)	0.1	10.8	6.7	7.2
Raw Material Expenses	245	214	244	204
Gross Profit	224	208	202	216
Margin (%)	47.8	49.4	45.4	51.4
<b>EBITDA</b>	<b>79</b>	<b>70</b>	<b>79</b>	<b>72</b>
YoY gr. (%)	(13.6)	63.5	350.1	57.9
Margin (%)	16.9	16.7	17.7	17.1
Depreciation / Depletion	20	19	20	21
<b>EBIT</b>	<b>59</b>	<b>51</b>	<b>59</b>	<b>51</b>
Margin (%)	12.6	12.2	13.2	12.2
Net Interest	21	20	21	20
Other Income	5	3	2	2
<b>Profit before Tax</b>	<b>43</b>	<b>35</b>	<b>46</b>	<b>33</b>
Margin (%)	9.1	8.3	10.3	7.9
Total Tax	5	11	18	9
Effective tax rate (%)	11.9	29.9	39.3	25.7
<b>Profit after Tax</b>	<b>37</b>	<b>25</b>	<b>28</b>	<b>25</b>
Minority interest	1	1	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>37</b>	<b>23</b>	<b>24</b>	<b>24</b>
YoY gr. (%)	(1.4)	179.0	(292.2)	392.9
Margin (%)	7.8	5.5	5.4	5.8
Extra Ord. Income / (Exp)	-	-	4	-
<b>Reported PAT</b>	<b>37</b>	<b>23</b>	<b>28</b>	<b>24</b>
YoY gr. (%)	13.3	179.0	(425.5)	392.9
Margin (%)	7.8	5.5	6.2	5.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>37</b>	<b>23</b>	<b>28</b>	<b>24</b>
Avg. Shares O/s (bn)	2	2	2	2
<b>EPS (Rs)</b>	<b>15.2</b>	<b>9.7</b>	<b>9.9</b>	<b>10.0</b>

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY23	FY24E	FY25E	FY26E
Crude Steel Production (mt)	21.0	25.5	28.7	33.3
Sales Volume (mt)	20.6	24.7	27.8	32.2
Realisation / tonne (Rs)	63,220	63,856	67,230	69,865
EBITDA / tonne (Rs)	9,017	12,107	12,287	12,606

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-24	BUY	992	837
2	21-Oct-23	BUY	903	769
3	07-Oct-23	BUY	925	765
4	28-Aug-23	BUY	926	773

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Hindalco Industries	BUY	673	591
2	Jindal Stainless	Accumulate	660	581
3	Jindal Steel & Power	BUY	826	745
4	JSW Steel	BUY	992	837
5	National Aluminium Co.	Accumulate	101	131
6	NMDC	BUY	261	224
7	Steel Authority of India	Accumulate	95	119
8	Tata Steel	Accumulate	140	134

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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