

JSW Steel

Estimate changes	↔
TP change	↔
Rating change	↔

CMP: INR816 **TP: INR910 (+12%)** **Neutral**

Revenue in line; slight beat on earnings

Bloomberg	JSTL IN
Equity Shares (m)	2417
M.Cap.(INRb)/(USD\$b)	1994.8 / 24
52-Week Range (INR)	896 / 649
1, 6, 12 Rel. Per (%)	-5/-7/-7
12M Avg Val (INR M)	1780

Financials Snapshot (INR b)

Y/E MARCH	FY24E	FY26E	FY26E
Net Sales	1,778	1,963	2,103
EBITDA	298	384	424
PAT	105	158	178
EPS (INR)	43	65	74
GR. (%)	196	50	13
BV/Sh (INR)	306	358	417

Ratios

ROE (%)	15.1	19.7	19.0
RoCE (%)	9.6	11.7	12.1

Valuations

P/E (X)	18.8	12.5	11.1
P/BV (X)	2.7	2.3	2.0
EV/EBITDA (X)	8.6	6.7	5.9
Div Yield (%)	1.1	1.6	1.8

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	44.8	44.8	45.2
DII	10.0	10.0	9.9
FII	26.7	26.6	26.6
Others	18.5	18.0	18.4

FII Includes depository receipts

- JSTL posted consolidated revenue of INR419b (up 7% YoY), which was in line with our estimate of INR411b. ASP for 3QFY24 stood at INR69,900/t (up 2% YoY), INR236/t higher than our estimate of INR69,664/t.
- EBITDA stood at INR72b (up 58% YoY), 9% above our estimate of INR66b. EBITDA/t stood at INR11,967/t, INR807/t higher than our estimate of INR11,159/t.
- Record dispatches to OEM, auto, RE, and packaging sector along with better operating performance from overseas subsidiaries supported the performance, which was partially offset by lower exports and lower offtake during festive holidays and higher input costs.
- APAT stood at INR23b (up 366% YoY), 9% above our estimates of INR21b. During 3QFY24, JSTL recognized an unrealized gain of INR1.35b, resulting from the dilution of interest in the company's JV. This gain was accounted for as 'other income'.
- Combined crude steel production stood at 6.9mt (up 12% YoY) and sales volumes came in at 6mt (up 5% YoY). The volumes were driven by higher capacity utilization and better demand scenario in the USA.
- Net debt in 3QFY24 increased INR100b to INR792b, with a net debt-to-EBITDA ratio of 2.64x (up from 2.52x in 2QFY24) and D/E ratio of 1.02x (up from 0.92x in 2QFY24).
- Revenue for 9MFY24 was up 8% YoY to INR1,287b; EBITDA was up 108% YoY to INR221b and APAT stood at INR77b.

Highlights from management commentary

- In 3QFY24, the coking coal cost was up USD21/t (as against the guidance of USD25-30/t). JSTL could achieve lower-than-guided cost due to better blending.
- Coking coal cost for 4QFY24 is expected to increase USD20-25/t.
- JSTL has maintained its production and sales target at 26.3mt and 25mt, respectively, for FY24.
- Capex for FY24 has been slightly trimmed down from INR200-210b to INR180b, with ~INR50b expected in 4QFY24. The decline in capex guidance is due to some spill over to 1QFY25.
- The 1.5mt BPSL expansion is expected to come on stream by the end of Feb'24 and the full benefit for the same is expected in FY25.
- The Vijayanagar expansion is expected to come on stream by mid FY25.
- JSTL is enhancing its RM integration by expanding EC at its existing mines in Karnataka by 4mt to 11mt.
- JSTL expects to increase the share of captive iron ore to 50% from its current 33% in the next few years.
- The company has implemented a price hike at the start of CY24 and may implement more hikes in 4QFY24.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Valuation and view

- The recent increase in coking coal and iron ore prices are expected to increase the cost; however, higher domestic volumes, better product mix, better overseas subsidiaries performance and higher exports are expected to partly mitigate the hike in key input prices in 4QFY24.
- Though JSTL remains positive on the robust steel demand from India, any increase in iron ore and coal cost would adversely impact the margins. Hence, we have largely retained our FY25/26 EBITDA guidance.
- JSTL is trading at 5.9x FY26E EV/EBITDA and 2x FY26E P/B. We reiterate our Neutral rating on the stock with a TP of INR910 (6.5x FY26E EV/EBITDA). While we remain positive on the company's growth prospects, we believe the current valuations reflect the strong outlook.

Consolidated financial performance (INR b)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E vs Est 3QE (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Sales (kt)	4,490	5,740	5,710	6,530	5,710	6,390	6,000	6,832	22,470	24,932		
Change (YoY %)	29.4	49.9	46.0	27.3	27.2	11.3	5.1	4.6	37.5	11.0		
Net Sales	381	418	391	470	422	446	419	491	1,660	1,778	411	1.9
Change (YoY %)	31.8	28.5	2.8	0.1	10.8	6.7	7.2	4.4	13.4	7.1		
Change (QoQ %)	-18.8	9.7	-6.3	20.0	-10.1	5.6	-5.9	17.0				
EBITDA	43	18	45	79	70	79	72	77	185	298	66	9.0
Change (YoY %)	-58.1	-83.2	-50.2	-13.6	63.5	350.1	57.9	-3.0	-52.5	60.7		
Change (QoQ %)	-53.1	-59.3	159.5	74.6	-11.2	11.9	-9.0	7.3				
EBITDA (INR per ton)	9,597	3,052	7,963	12,158	12,340	12,341	11,967	11,273	8,254	11,958		
Interest	14	15	18	21	20	21	20	21	69	81		
Depreciation	18	18	19	20	19	20	21	21	75	81		
Other Income	2	2	2	5	3	2	2	3	10	10		
PBT (before EO Item)	13	-14	10	43	35	40	33	38	52	147		
EO Items	0	6	0	0	0	6	0	0	6	6		
PBT (after EO Item)	13	-8	10	43	35	46	33	38	58	152		
Total Tax	4	1	5	5	11	18	9	10	15	47		
% Tax	34.1	-7.8	48.7	11.9	29.9	39.3	25.7	25.6	26.2	30.8		
PAT before MI and Asso.	9	-9	5	37	25	28	25	28	43	106		
MI (Profit)/Loss	0.0	0.7	0.2	-0.8	-0.9	-0.1	-0.4	0.0	0.1	-1.4		
Share of P/(L) of Ass.	-0.2	-0.6	-0.6	-0.1	-0.3	-0.2	-0.2	0.0	-1.4	-0.7		
Reported PAT (after MI and Asso.)	8	-8	5	37	23	28	24	28	41	103		
Adjusted PAT	8	-14	5	37	23	31	23	28	36	105	21	8.5
Change (YoY %)	-85.8	PL	-88.8	-7.8	179.0	LP	365.3	-22.9	-83.4	195.8		
Change (QoQ %)	-78.9	PL	LP	647.8	-36.2	31.1	-25.6	24.0				

Source: MOFSL, Company



Highlights from the management interaction

4QFY24 and FY24 guidance:

- Coking coal cost, which was up USD21/t in 3QFY24, is expected to further increase by USD20-25/t in 4QFY24.
- JSTL could achieve lower-than-guided coal cost in 3QFY24, on the back of better blending. JSTL blended coal cost is usually lower than the benchmark premium HCC.
- Iron ore prices though have cooled off over the last few weeks, it is expected to remain higher than it was in 3QFY24.
- JSTL has maintained its production and sales guidance of 26.3mt and 25mt, respectively, for FY24.
- Higher domestic volumes, better product mix, better overseas subsidiaries performance and higher exports are expected to mitigate the increase in input cost.
- The share of VAP stood at 60% (down from 62% in 2QFY24) and JSTL expects to keep the share of VAP over 50% (post expansion).
- Net debt in 3QFY24 increased INR100b to INR792b and the same is expected to reduce in the coming quarters as working capital gets released.

Capex:

- JSTL incurred over INR130b as capex in 9MFY24 and is expected to incur an additional INR50b in 4QFY24, taking the yearly capex to ~INR180b.
- Management has revised the capex guidance from its earlier INR200b, due to some payments spilling over to the next quarter.
- 1.5mt BPSL facility is expected to commence production from the end of Feb'24 and the full benefit of ramp up in volumes will be from FY25 onwards.
- The 5mt Vijayanagar facility is expected to commence production from 2Q-3QFY25 onwards.
- Post completion of the ongoing expansion, JSTL expects to undertake brownfield expansion projects at Vijayanagar, Dolvi, and BPSL. Each of these locations holds a growth potential of 4.5-5mt.
- JSTL would also undertake 4mt green steel expansion in two phases with 2mt EAF expected to come on stream by FY30.
- JSTL has planned to increase its domestic presence from the current ~28mt to ~50mt by FY31E.
- The slurry pipeline is expected to be commissioned in FY26.

Iron ore linkages:

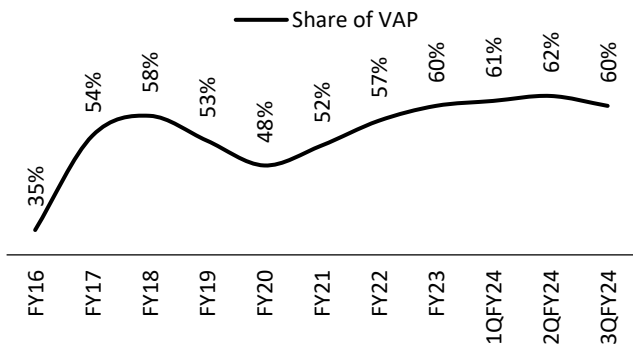
- JSTL has nine mines in Karnataka with existing EC of ~7mt and the company has applied for an additional 4mt EC, which is expected to take the total production to 11mt in the near term.
- JSTL has recently won three new mines, which has EC of ~4.5mt and are expected to come on stream by FY25.
- JSTL also has four mines at Odisha with a potential of ~20-25mt, thus taking the total iron ore from captive mines to ~40mt.
- JSTL currently has ~33% of iron ore linkages and the rest is procured from merchant miners. The company expects the same to reach 50% levels.

Domestic demand:

- Domestic demand continues to remain robust and is expected to grow at 8-10% YoY in FY24.
- The demand is driven by sectors such as infrastructure, real estate, RE, and automobile.
- JSTL expects the demand to further pick up before elections.
- Though the steel imports had increased and touched a recent high in Nov'23, they have since subdued over the last few weeks. As export realizations improve, JSTL expects to dispatch higher volumes in exports in 4QFY24.
- Domestic prices are now close to parity with international prices, which would also limit the imports going ahead.

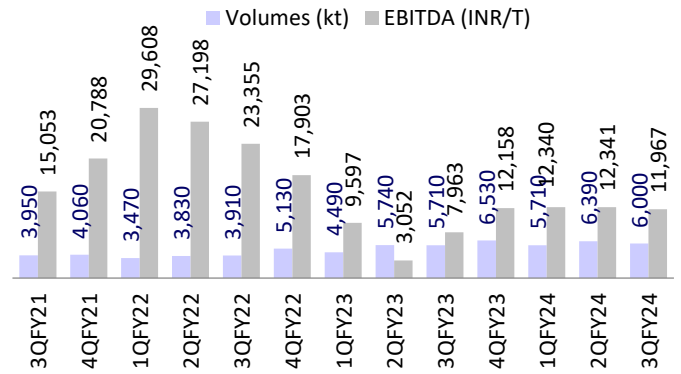
Story in charts

Exhibit 1: Share of VAP has witnessed a slight dip in 3QFY24



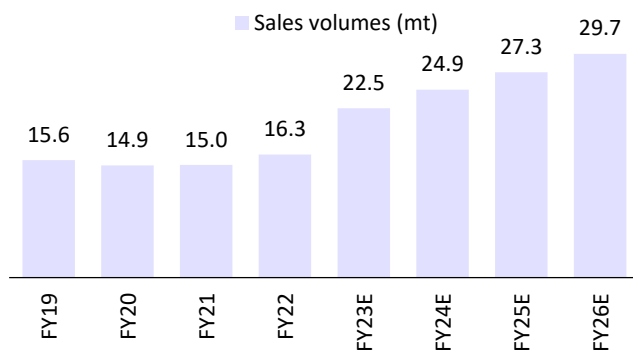
Source: MOFSL, Company

Exhibit 2: Consolidated volumes and EBITDA/t remain range bound in 3QFY24



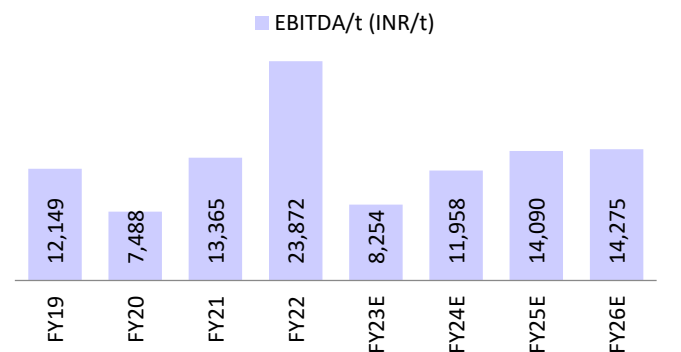
Source: MOFSL, Company

Exhibit 3: Sales volumes expected to touch ~30mt by FY26E



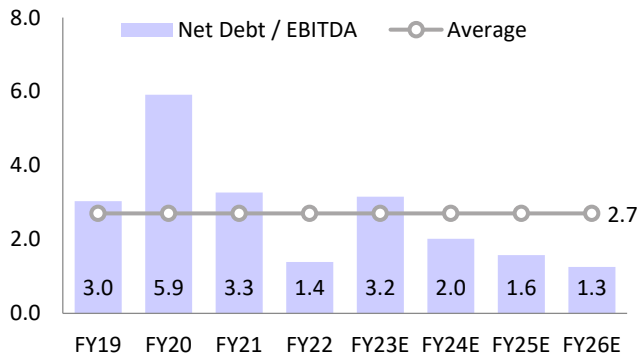
Source: MOFSL, Company

Exhibit 4: Consolidated EBITDA/t (INR/t) expected to improve going forward



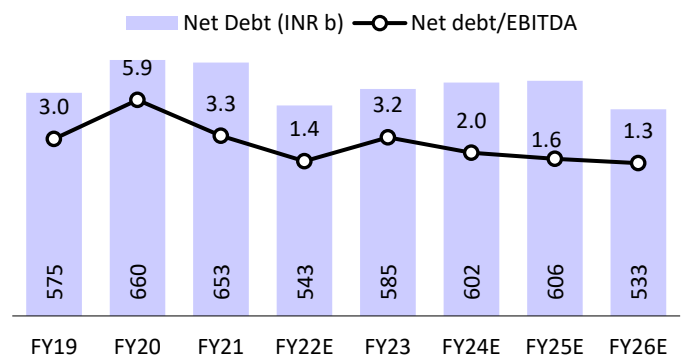
Source: MOFSL, Company

Exhibit 5: Net debt/EBITDA to remain below LTA



Source: MOFSL, Company

Exhibit 6: JSTL is expected to continuously deleverage



Source: MOFSL, Company

Exhibit 7: Changes in key assumptions and our estimates (consolidated)

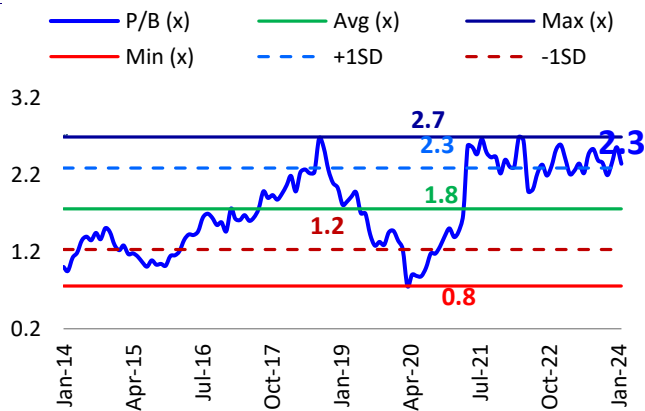
Particulars (INR b)	FY24E			FY25E			FY26E		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Revenue	1,778	1,767	0.6	1,963	1,986	-1.2	2,103	2,126	-1.1
EBITDA	298	290	2.8	384	384	0.0	424	424	0.0
Adj PAT	105	102	2.8	158	158	0.1	178	178	-0.1

Source: MOFSL, Company

Calculation of TP

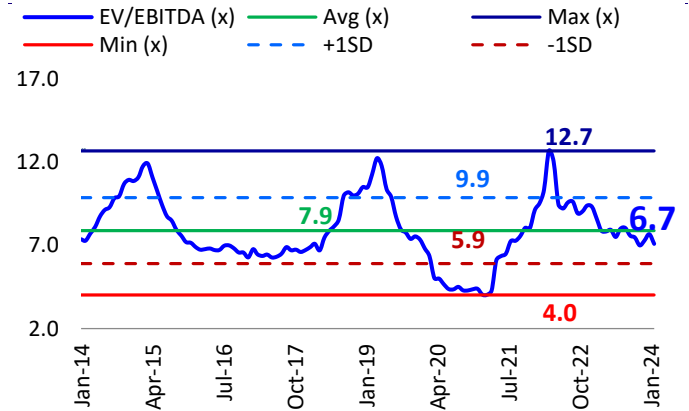
Year	FY26E
Volumes (mt)	29.7
EBITDA (INR/t)	14,275
EBITDA (INR m)	4,23,998
EBITDA (INR b)	424
EV/EBITDA (x)	6.5
EV (INR b)	2,735
Net Debt (INR b)	533
Equity value (INR b)	2,202
No. of shares (b)	2.4
Equity value /sh.	910

Exhibit 8: P/B ratio is ranging between +1SD and Max



Source: MOFSL

Exhibit 9: EV/EBITDA is below LTA



Source: MOFSL

Comparative valuations of global steel companies

Company	M-Cap USD mn	P/E (x)		EV/EBITDA (x)		P/B (x)		RoE (%)	
		CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24
India									
Tata*	19,791	18.9	33.6	7.2	10.6	1.7	1.8	8.3	5.2
JSW*	24,001	55.5	18.8	13.8	8.6	3.0	2.7	5.3	15.1
JSP*	8,792	19.7	14.9	7.9	8.5	1.9	1.7	9.9	11.8
SAIL*	5,918	25.6	46.6	9.9	9.4	0.9	0.9	3.5	1.9
Japan									
JFE	9,965	8.8	7.3	7.2	6.0	0.6	0.6	7.4	8.7
Nippon Steel	22,451	5.0	7.6	5.3	6.1	0.8	0.7	17.3	10.3
Kobe Steel	5,312	12.4	6.5	8.5	5.4	0.9	0.8	7.5	11.7
Korea									
POSCO	25,353	13.2	11.4	5.6	5.3	0.6	0.6	4.7	5.1
Hyundai Steel	3,380	6.3	6.4	5.0	4.5	0.2	0.2	3.7	3.6
US									
Nucor	42,439	9.7	13.8	6.0	7.8	2.1	1.8	21.7	13.6
US Steel	10,788	11.4	16.8	6.0	6.6	1.0	1.0	9.6	5.8
Steel Dynamics	18,858	7.9	11.4	5.4	7.6	2.1	1.9	28.1	17.4
Europe									
AM	23,543	6.9	6.2	3.9	4.0	0.4	0.4	6.7	7.0
SSAB	7,328	6.1	9.8	3.0	4.3	1.1	1.0	18.4	11.2
TKA	3,881	21.7	7.6	0.3	0.3	0.3	0.3	0.7	4.0
VOE	5,410	5.0	9.9	2.9	4.1	0.6	0.6	13.8	6.5
China									
Baosteel	18,764	12.2	10.3	5.1	4.6	0.7	0.6	5.4	6.4

Financials and Valuation

Income statement (consolidated)						(INR b)		
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	848	726	796	1,464	1,660	1,778	1,963	2,103
Change (%)	20.9	-14.3	9.6	83.9	13.4	7.1	10.4	7.1
Total Expenses	658	615	596	1,074	1,474	1,480	1,579	1,679
EBITDA	190	112	200	390	185	298	384	424
% of Net Sales	22.4	15.4	25.1	26.6	11.2	16.8	19.6	20.2
Deprn. & Amortization	40	42	47	60	75	81	93	104
EBIT	149	69	153	330	111	217	291	320
Net Interest	39	43	40	50	69	81	83	85
Other income	2	5	6	15	10	10	5	5
PBT before EO	112	32	119	296	52	147	213	240
EO income		21	1	-7	6	6	0	0
PBT after EO	112	53	120	288	58	152	213	240
Tax	36	12	41	88	15	47	54	60
Rate (%)	32.5	23.7	34.5	30.6	26.2	30.8	25.2	25.2
PAT before MI and Asso.	76	40	79	200	43	106	160	180
Minority interests	1	1	0	-3	0	-1	-1	-1
Share of Associates	0	-1	0	9	-1	-1	-1	-1
Reported PAT after MI and Asso.	76	40	79	207	41	103	158	178
Adj. PAT (after MI & Asso)	76	20	78	214	36	105	158	178
Change (%)	35.5	-74.2	297.8	173.3	-83.4	195.8	50.3	12.6

Balance sheet						(INR b)		
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Reserves	346	364	465	671	655	737	863	1,006
Net Worth	348	366	468	673	657	739	866	1,008
Minority Interest	-5	-6	-6	12	13	16	17	19
Total Loans	638	780	782	717	793	823	783	768
Deferred Tax Liability	38	17	35	76	79	79	79	79
Capital Employed	1,019	1,157	1,278	1,478	1,542	1,657	1,745	1,874
Gross Block	775	811	887	1,300	1,392	1,592	1,792	1,962
Less: Accum. Deprn.	149	191	238	301	348	429	522	626
Net Fixed Assets	626	620	649	999	1,045	1,164	1,271	1,337
Capital WIP	119	272	326	169	222	202	187	187
Investments	18	13	86	49	48	48	48	48
Curr. Assets	385	414	423	748	797	839	851	944
Inventory	145	139	142	338	331	355	403	432
Account Receivables	72	45	45	75	71	76	84	90
Cash and Bank Balance	63	120	128	174	207	221	176	235
Others	105	110	107	161	187	187	187	187
Curr. Liability & Prov.	129	161	205	487	568	596	611	642
Account Payables	59	81	69	309	382	409	425	455
Provisions & Others	69	80	136	178	186	186	186	186
Net Current Assets	256	252	218	261	228	243	240	302
Appl. of Funds	1,019	1,157	1,278	1,478	1,542	1,657	1,745	1,874

Financials and Valuation

Ratios

Y/E March	FY19	FY20	FY21E	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	31.8	8.2	32.4	88.6	14.7	43.5	65.4	73.6
Cash EPS	48.3	34.4	51.9	107.7	48.6	77.0	104.6	117.3
BV/Share	145.0	152.5	193.5	278.4	271.8	305.9	358.2	417.1
DPS	3.3	4.1	6.5	17.4	3.4	8.7	13.1	14.7
Payout (%)	10.2	50.0	20.1	19.6	23.1	20.0	20.0	20.0
Valuation (x)								
P/E	25.6	99.4	25.2	9.2	55.5	18.8	12.5	11.1
Cash P/E	16.9	23.7	15.7	7.6	16.8	10.6	7.8	7.0
P/BV	5.6	5.4	4.2	2.9	3.0	2.7	2.3	2.0
EV/Sales	3.0	3.6	3.3	1.7	1.5	1.4	1.3	1.2
EV/EBITDA	13.4	23.5	13.1	6.4	13.8	8.6	6.7	5.9
Dividend Yield (%)	0.4	0.5	0.8	2.1	0.4	1.1	1.6	1.8
Return Ratios (%)								
EBITDA Margins (%)	22.4	15.4	25.1	26.6	11.2	16.8	19.6	20.2
Net Profit Margins (%)	9.0	2.7	9.8	14.6	2.1	5.9	8.0	8.5
RoE	24.4	5.5	18.7	37.5	5.3	15.1	19.7	19.0
RoCE (pre-tax)	11.0	4.5	8.7	17.4	5.3	9.6	11.7	12.1
RoIC (pre-tax)	13.0	5.9	13.8	24.2	6.9	12.9	15.5	15.7
Working Capital Ratios								
Fixed Asset Turnover (x)	1.1	0.9	0.9	1.1	1.2	1.1	1.1	1.1
Asset Turnover (x)	0.8	0.6	0.6	1.0	1.1	1.1	1.1	1.1
Debtor (Days)	30.8	22.6	20.6	18.6	15.7	15.7	15.7	15.7
Inventory (Days)	62.6	69.7	65.3	84.3	72.9	72.9	75.0	75.0
Creditors (Days)	25.5	40.8	31.6	77.0	84.0	84.0	79.0	79.0
Working Capital (Days)	67.9	51.5	54.3	25.8	4.5	4.5	11.7	11.7
Leverage Ratio (x)								
Current Ratio	3.0	2.6	2.1	1.5	1.4	1.4	1.4	1.5
Interest Cover Ratio	3.8	1.6	3.9	6.6	1.6	2.7	3.5	3.8
Debt/Equity	1.7	1.8	1.4	0.8	0.9	0.8	0.7	0.5

Cash flow statement (consolidated)

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
EBITDA	190	112	200	390	185	298	384	424
Non cash exp. (income)	-1	11	-5	-1	23	0	0	0
(Inc)/Dec in Wkg. Cap.	-16	16	13	-73	31	-1	-41	-4
Tax Paid	-26	-12	-19	-54	-6	-47	-54	-60
CF from Op. Activity	146	128	188	263	233	256	289	359
(Inc)/Dec in FA + CWIP	-102	-128	-93	-100	-147	-180	-185	-170
(Pur)/sale of Invest.	3	1	-3	-1	0	0	0	0
Acquisition in subs.	-14	1	-67	-7	-4	0	0	0
Int. & Dividend Income	2	5	6	6	11	10	5	5
Others	-2	-75	75	-58	33	0	0	0
CF from Inv. Activity	-114	-196	-81	-160	-107	-170	-180	-165
Equity raised/(repaid)	-2	0	0	0	0	0	0	0
Debt raised/(repaid)	67	111	17	-80	51	30	-40	-15
Dividend (incl. tax)	-9	-12	-5	-16	-42	-21	-32	-36
Interest paid	-38	-47	-43	-51	-69	-81	-83	-85
CF from Fin. Activity	18	52	-31	-147	-60	-72	-154	-136
(Inc)/Dec in Cash	49	-16	76	-44	66	14	-44	58
Add: opening Balance	6	56	40	119	88	154	168	123
Regrouping / transaction Adj.	1	0	4	12	0	0	0	0
Closing cash balance	56	40	119	88	154	168	123	182
Bank Balance	7	80	9	86	53	53	53	53
Closing Balance (incl. bank balance)	63	120	128	174	207	221	176	235

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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