JSW Steel

26 January 2024

EBITDA broadly in line; international operations show recovery

RESULT UPDATE

Sector: Metals	**Rating: BUY**
CMP: Rs 816	**Target Price: Rs 937**

Stock Info

Sensex/Nifty	70,701 / 21,253
Bloomberg	JSTL IN
Equity shares (mn)	2,417
52-wk High/Low	Rs 896/650
Face value	Rs 1
M-Cap	Rs 1974bn/USD 24bn

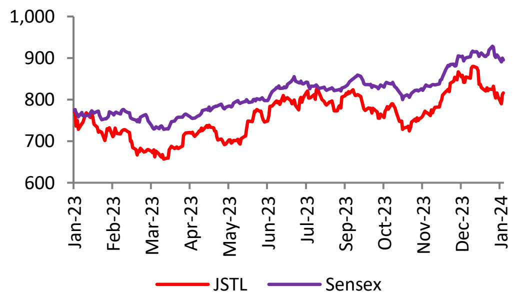
Financial Snapshot (Rs bn)

Y/E Mar	FY24E	FY25E	FY26E
Sales	1,607.0	1,694.2	1,860.6
EBITDA	303.7	369.4	426.5
PAT	110.7	151.3	185.0
EPS (Rs)	45.8	62.6	76.5
EV/EBITDA (x)	8.2	6.7	5.8
P/E (x)	17.8	13.0	10.7
RoE (%)	15.9%	19.4%	21.9%
RoCE (%)	15%	18%	21%
Dividend yield (%)	0.9	1.2	1.4

Shareholding Pattern (%)

	Dec'23	Sep'23	Jun'23
Promoter	44.8	44.8	45.4
–Pledged	6.6	6.3	6.8
FII	26.3	26.1	26.0
DII	9.5	9.5	9.6
Others	19.4	19.6	19.0

Stock Performance (1-year)



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JSW Steel's (JSTL) 3QFY24 cons. adj. EBITDA of Rs 71.8bn (-9.6%/-9.0% YoY/QoQ) was 2.3% above our estimate majorly due to resilient performance at Indian operations and steady recovery at international operations. Cons. revenue of Rs 419.4bn (+7.2%/-5.9% YoY/QoQ) was 10.8% above our estimate. Standalone India operations reported sales volume of 6.06mt, a change of +23%/-2% YoY/QoQ, partially offsetting the impact of lower steel realisations which came in at Rs 54,967/t (-12%/+1% YoY/QoQ). Standalone EBITDA Rs 57.7bn (-7%/-16% YoY/QoQ) was 10% above our estimate. Standalone raw material costs increased by 13%/18% YoY/QoQ due to higher coking coal and iron ore prices during the quarter. Power and fuel costs fell 14% YoY. Adj. international subsidiaries' performance recovered due to improved market conditions and easing inflationary pressures in the US and Europe, resulting in a 42% sequential growth in EBITDA. JSTL is nearing completion of its capex plan of ~Rs 188bn for FY24 primarily directed towards a) bringing two coking coal and one thermal coal blocks on-stream, b) capacity expansion by 5mt at Vijayanagar in Karnataka by end-FY24, c) 1.5mt capacity expansion at BPSL in Odisha by end-FY24, and d) maintenance capex. On-ground capex plans are estimated to take total crude steel production capacity to 37mt by FY25 while a subsequent capex plan to increase capacities to 50mt by 2030 is currently on the chalkboard. We revise our FY24/FY25 EBITDA estimate lower by 13%/10% to factor in a) a decline in steel prices, b) rise in raw material costs, and c) volume assumptions. We introduce FY26 estimates and value JSTL at 6.5x FY26E EV/EBITDA, arriving at a revised target price of Rs 937/share (Rs 940/share earlier) accounting for increased net debt due to working capital build-up during the quarter. The decline in Indian steel prices coupled with a rise in international prices has enabled import parity, a key positive likely to lead to better exports and improved international subsidiaries' performance going forward. The rise in Chinese exports is a key risk.

Key takeaways from the 3QFY24 earnings call

- JSTL reported highest ever crude steel production of 6.87mt (+10.1%/+8.4% YoY/QoQ) and capacity utilization improved to 94% vs 89% during the previous quarter. Steel sales of 6mt declined by 6% QoQ largely due to lower exports and domestic retail sales. Retail sales majorly declined due to a rise in imports from China and the onset of festivities during the quarter.
- Industrial sales, however, grew 8% QoQ led by better traction from renewables, packaging, and automotive sectors.
- Better coal mix kept the increase in coking coal costs at USD 21/t QoQ, lower than the earlier guided range of USD 25-30/t; coking coal cost averaged at USD 252/t in 3QFY24. Coking coal costs are expected to increase by USD 20/t in 4QFY24, lower than the movement in international benchmark prices, led by an efficient coal blend. Higher raw material costs are expected to be largely offset by better exports and higher overall sales volumes in 4QFY24.
- To ensure iron ore self-sufficiency, JSTL plans to enhance the EC limit of mines in Karnataka from 7mt to 11mt as well as add new mines with peak rated capacity of ~4.5mt. For its iron ore mines in Orissa, JSTL has received approvals for the enhancement of the EC limit. Total captive iron ore capacity is expected to reach

Investors are advised to refer disclosures made at the end of the research report.

40mt by next year, sufficient to meet 50% of its iron ore requirement at 37mt crude steel capacity.

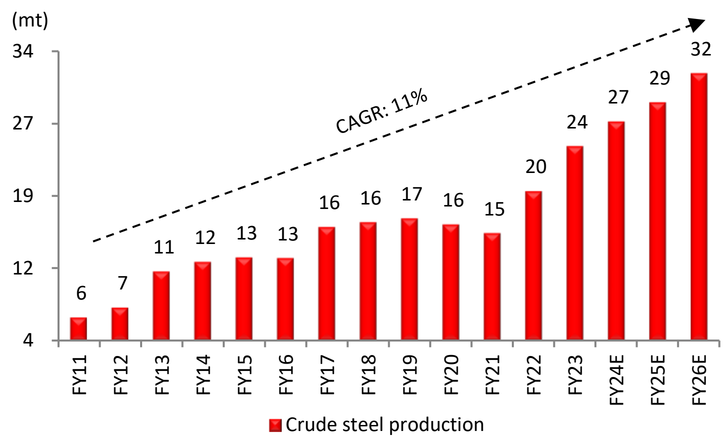
- On the realisation front, steel prices saw a steady increase in October, but the rise did not persist over the rest of the quarter due to higher imports from China. However, the rise and fall in international and domestic steel prices, respectively, has improved import parity and is likely to benefit Indian steel producers in terms of higher export volumes in the coming quarters.
- JSTL's MSME platform JSW One (69% shareholding), which now has 43,000 registered customers and annualised gross merchandise value of Rs 680bn, has garnered strong traction from the customers. The platform raised Rs 2.05bn from Mitsui (8.2% stake) in April 2023.

Exhibit 1: Quarterly snapshot

(Rs bn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Net revenues	**391**	**470**	**422**	**446**	**419**
YoY change (%)					*7*
QoQ change (%)					*-6*
EBITDA	**79**	**79**	**70**	**79**	**72**
YoY change (%)					*-10*
QoQ change (%)					*-9*
EBITDA Margin (%)	20	17	17	18	17
Net earnings (adjusted)	**37**	**37**	**25**	**28**	**25**
YoY change (%)					*-34*
QoQ change (%)					*-12*

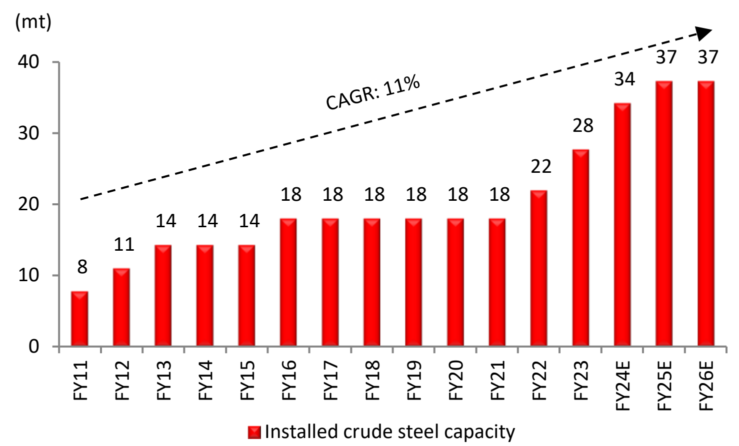
Source: Company, Systematix Institutional Research

Exhibit 2: Output set to rise with commissioning of new capacity



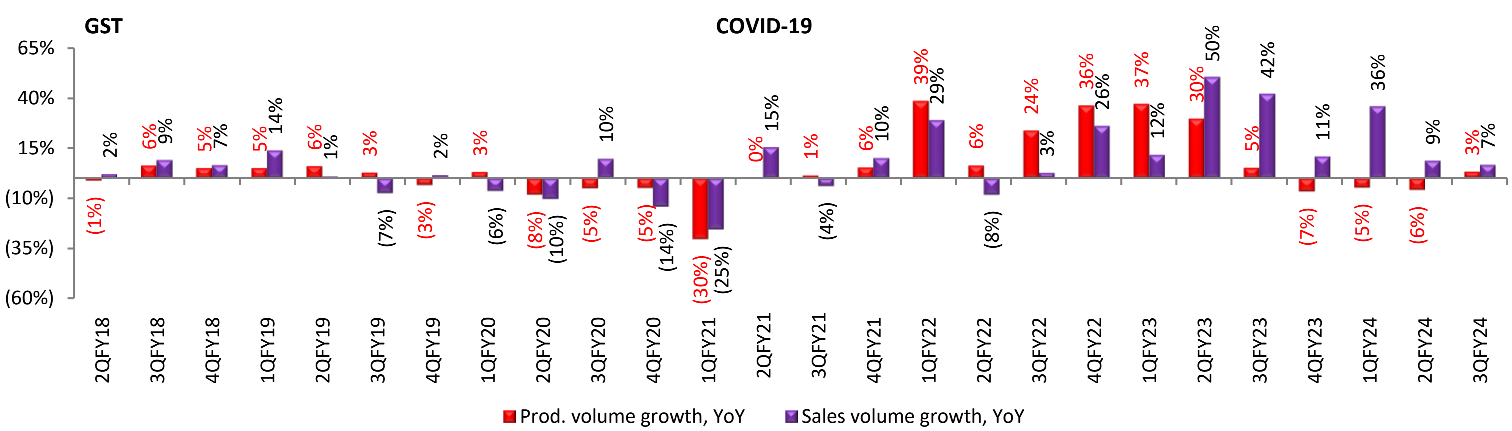
Source: Company, Systematix Institutional Research

Exhibit 3: Installed crude steel capacity to reach 37mt by FY25



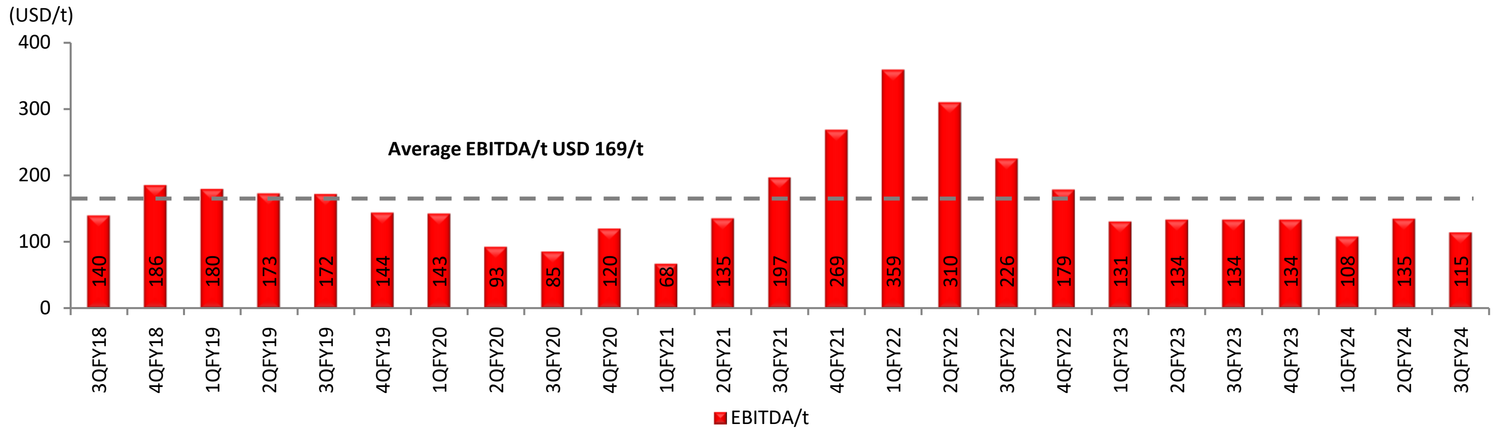
Source: Company, Systematix Institutional Research

Exhibit 4: JSTL standalone - quarterly volume growth



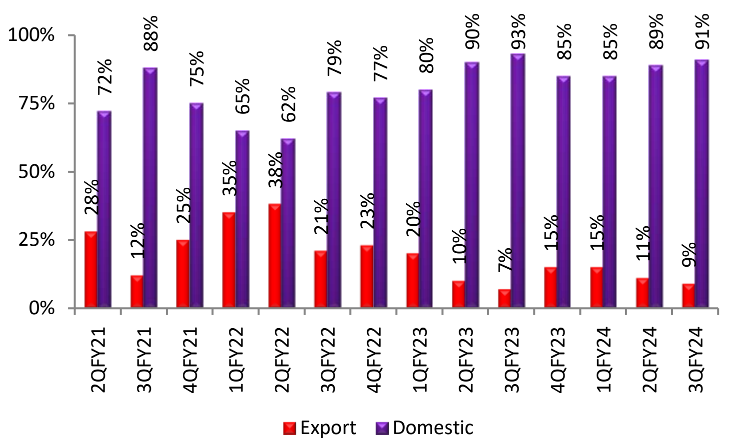
Source: Company, Systematix Research

Exhibit 5: Standalone EBITDA margins (USD/t)



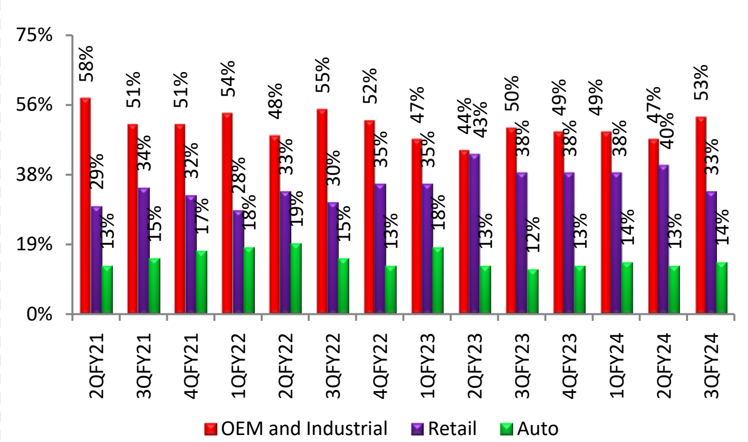
Source: Company, Systematix Institutional Research

Exhibit 6: Share of exports fell during the quarter (%); sustaining domestic demand



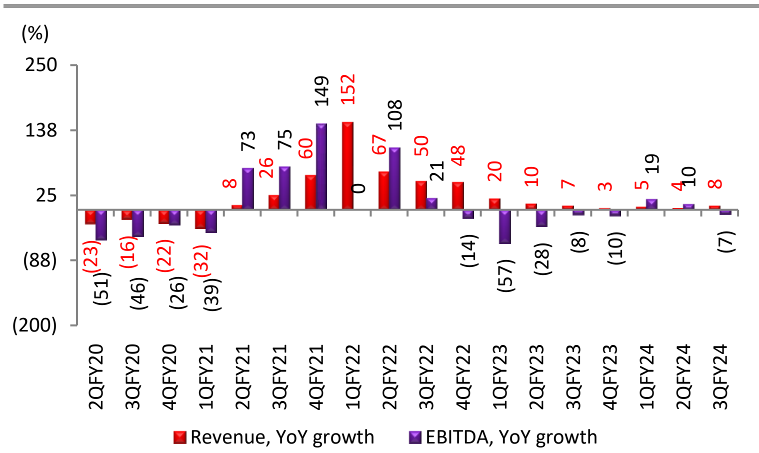
Source: Company, Systematix Institutional Research

Exhibit 7: Share of sales to retail dropped 7ppt QoQ; 6ppt/1ppt QoQ rise in OEM/auto share in sales



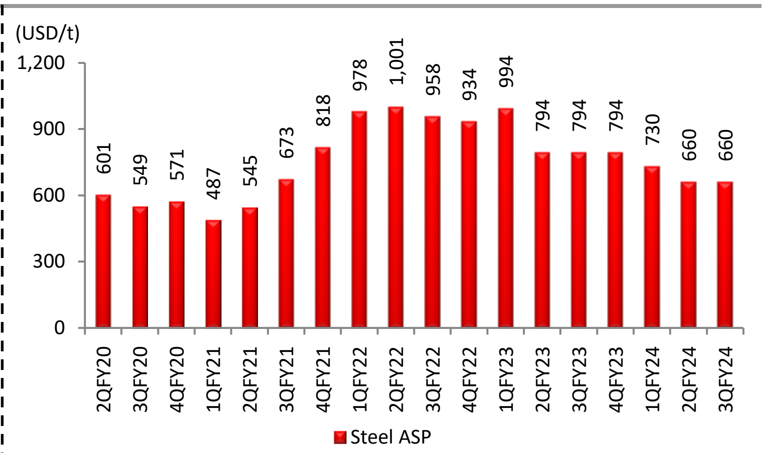
Source: Company, Systematix Institutional Research

Exhibit 8: Standalone revenue and EBIDTA trends (% YoY)



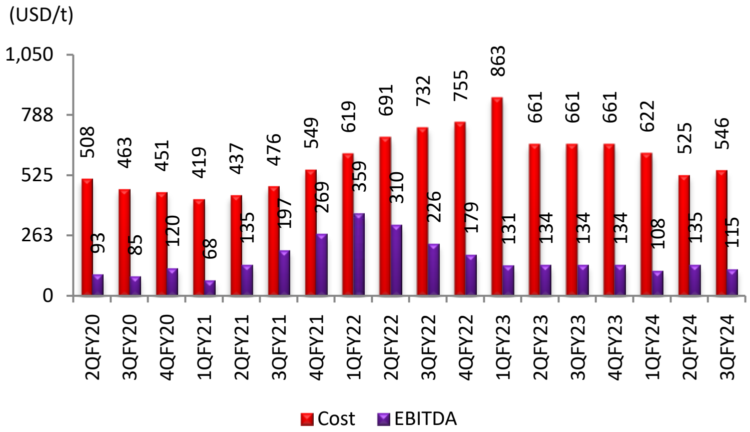
Source: Company, Systematix Institutional Research

Exhibit 9: Standalone ASP (USD/t)



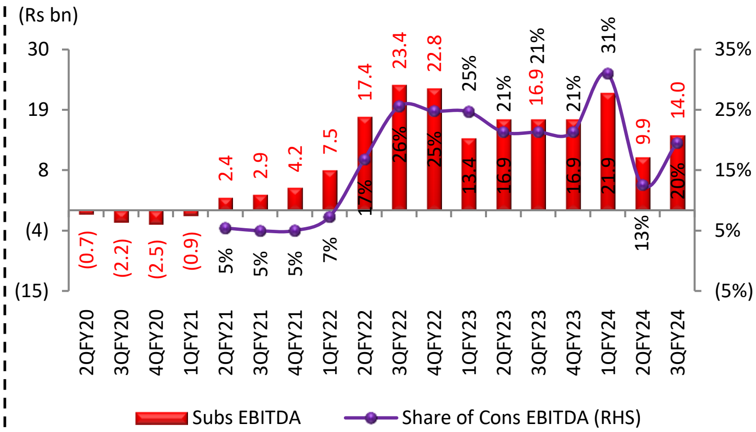
Source: Company, Systematix Institutional Research

Exhibit 10: Std EBITDA/t drops on higher costs



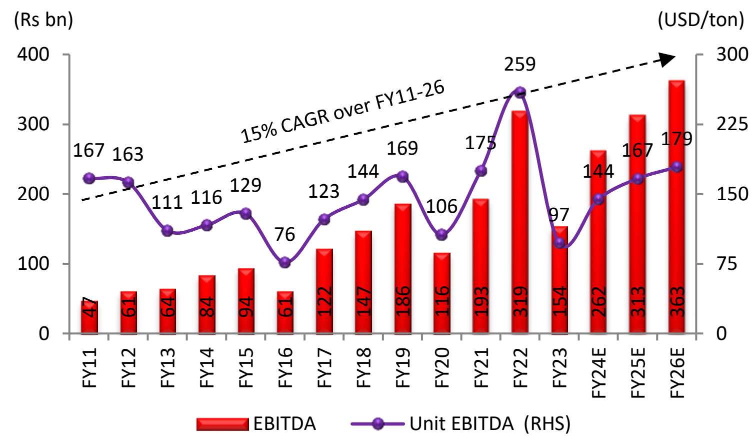
Source: Company, Systematix Institutional Research

Exhibit 11: Subsidiaries' EBITDA rises during the quarter



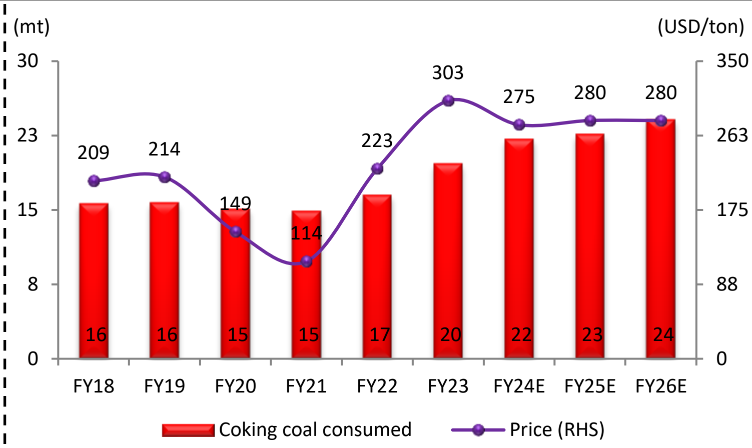
Source: Company, Systematix Institutional Research

Exhibit 12: Near-term margins likely to trend higher (USD/t)



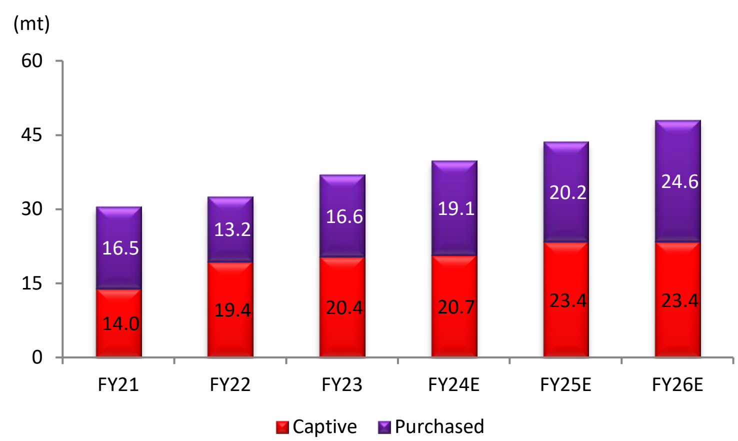
Source: Company, Systematix Institutional Research

Exhibit 13: Coking coal price to stabilise gradually (USD/t)



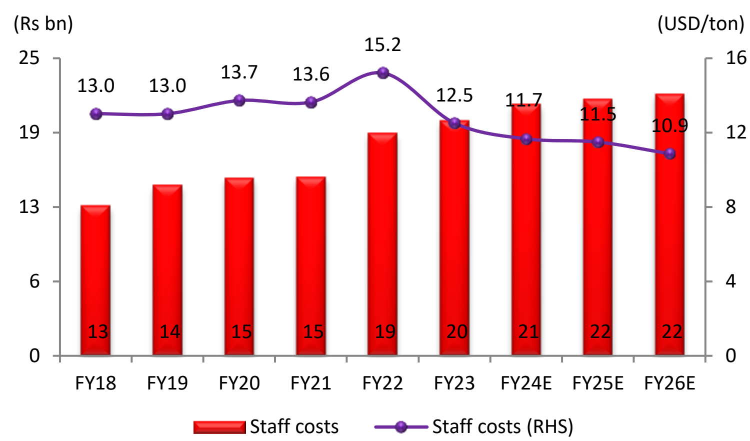
Source: Company, Systematix Institutional Research

Exhibit 14: Need for iron ore to rise with coming expansions (mt); share of captive iron ore would also increase gradually



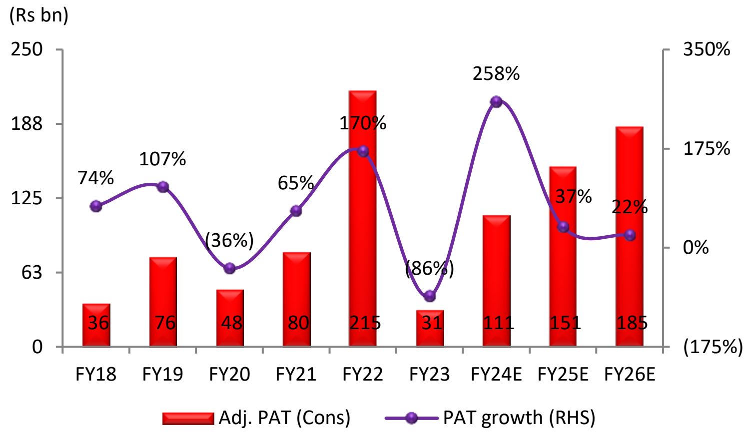
Source: Company, Systematix Institutional Research

Exhibit 15: Staff costs lowest among peers (USD/t)



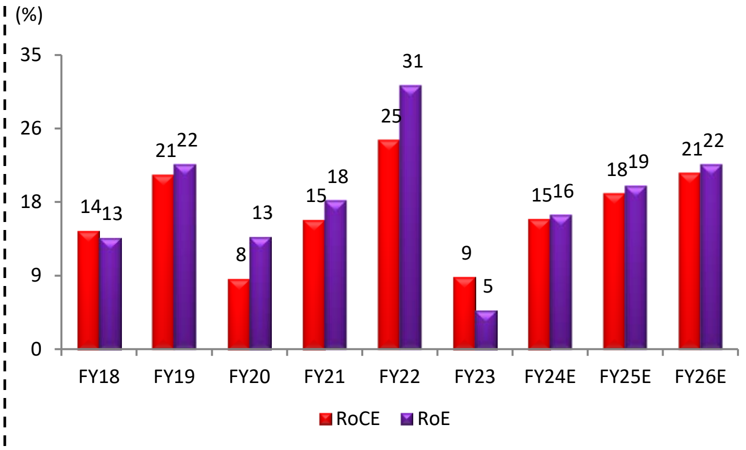
Source: Company, Systematix Institutional Research

Exhibit 16: Consolidated PAT to grow on higher volumes



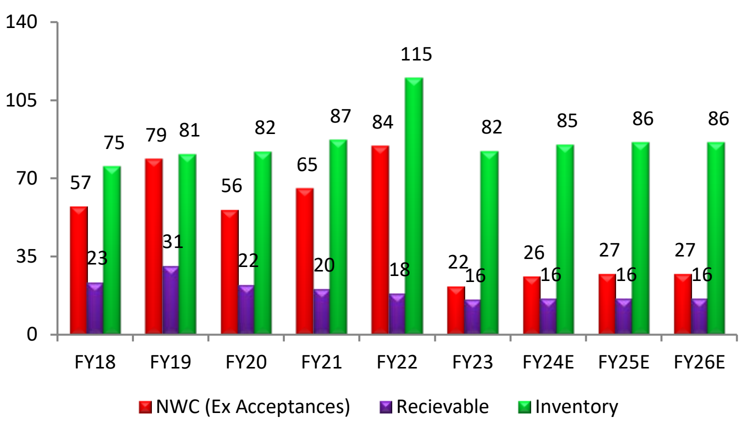
Source: Company, Systematix Institutional Research

Exhibit 17: Consolidated return ratios likely to recover in FY24



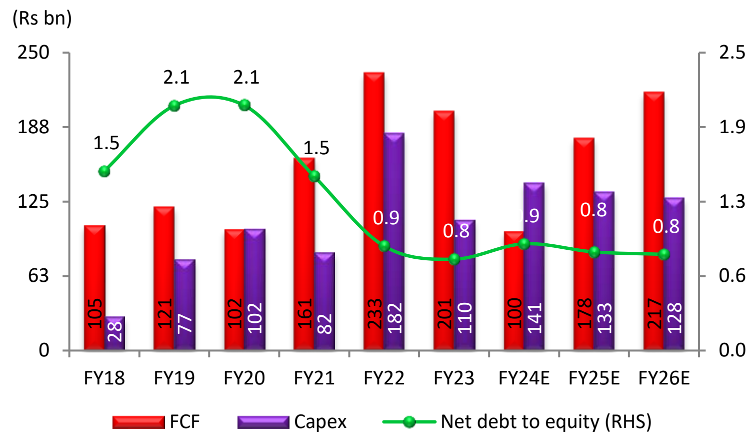
Source: Company, Systematix Institutional Research

Exhibit 18: Net working capital (consolidated)



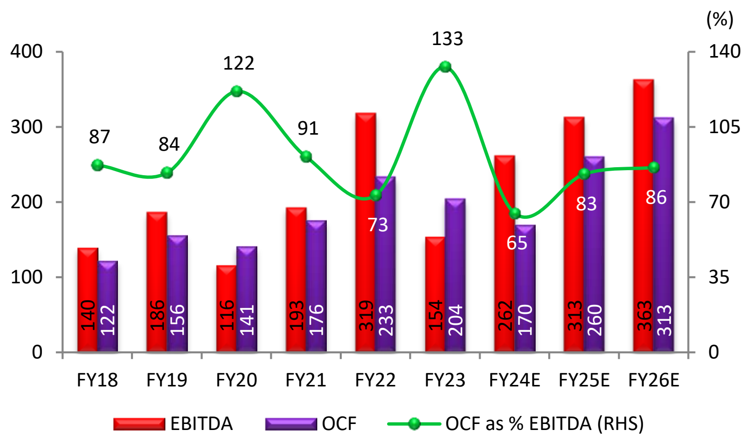
Source: Company, Systematix Institutional Research

Exhibit 19: Net debt (consolidated) to equity trend



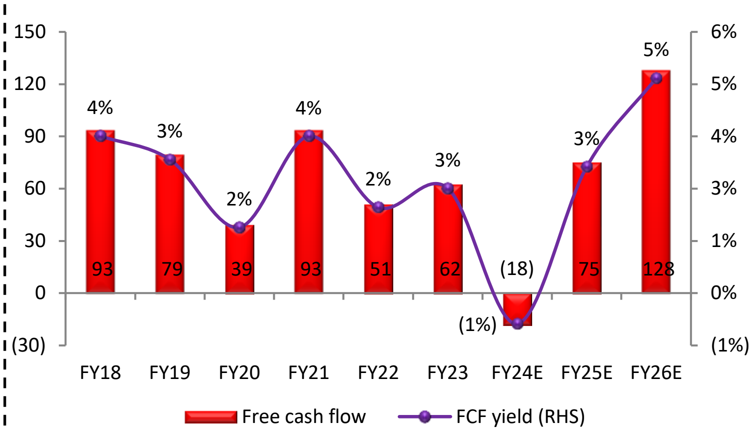
Source: Company, Systematix Institutional Research

Exhibit 20: EBITDA (consolidated) to OCF conversion



Source: Company, Systematix Institutional Research

Exhibit 21: Consolidated FCF to EV to likely see a sharp rise in FY25



Source: Company, Systematix Institutional Research

Exhibit 22: Key assumptions

		FY21	FY22	FY23	FY24E	FY25E	FY26E
Company gudiance:							
Production	mt	16.0	18.5	25.0	26.3	-	-
Sales	mt	15.0	17.4	24.0	25.0	-	-
Volumes standalone							
Production	mt	15.2	19.5	24.2	26.0	28.7	31.7
Sales	mt	14.9	16.5	19.7	25.0	26.6	28.6
Realisations	USD/t	648	982	844	760	773	780
Raw materials							
Iron ore	mt	31	33	37	40	44	48
Captive	*%*	*35*	*43*	*41*	*52*	*53*	*53*
Coking coal	mt	15	17	22	25	26	28
Iron ore	USD/t	96	151	126	130	131	129
Coking coal	USD/t	114	223	303	275	280	280
Margins							
EBITDA	USD/t	175	259	97	144	167	179
Margins	*%*	*27*	*27*	*12*	*19*	*22*	*23*
Capex		82.3	182.4	109.7	141.0	133.3	128.1

Source: Company, Systematix Institutional Research

Valuation and view

Target price of Rs 937/share based on FY26E EV/EBITDA of 6.5x

Exhibit 23: JSTL valuation: EV/EBITDA method, FY26E

	EBITDA (Rs bn)	Multiple (x)	Enterprise value (Rs bn)	Per share (Rs)
EBITDA	426.5	6.5	2,772	1,147
Less: net debt / (Cash)			792	328
Add: CWIP			284	117
Equity value			2,264	937
Target price per share			**937**	

Source: Company, Systematix Institutional Research

Exhibit 24: Revised estimates

(Rs bn)	Previous		New		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	1,598	1,785	1,607	1,694	1%	-5%
EBITDA	351	412	304	369	-13%	-10%
PAT	148	188	111	151	-25%	-19%

Source: Company, Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs bn)	FY22	FY23	FY24E	FY25E	FY26E
Net revenues	**1,479**	**1,670**	**1,607**	**1,694**	**1,861**
Expenditure	1,074	1,474	1,303	1,325	1,434
EBITDA	**405**	**196**	**304**	**369**	**427**
Depreciation	60	75	82	88	95
EBIT	**345**	**121**	**222**	**281**	**332**
Interest cost	50	69	68	71	75
Exceptionals	7	(6)	-	-	-
PBT	**296**	**52**	**154**	**210**	**257**
Taxes	88	15	43	59	72
PAT	**208**	**37**	**111**	**151**	**185**
Adjusted PAT	**215**	**31**	**111**	**151**	**185**
No of Shares (mn)	2.4	2.4	2.4	2.4	2.4
Adj. EPS (Rs/share)	**89.0**	**12.8**	**45.8**	**62.6**	**76.5**

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	3	3	3	3	3
Reserves & Surplus	670	654	678	715	780
Minority interest	673	657	681	765	830
Networth	**673**	**657**	**681**	**718**	**783**
Total Debt	700	788	808	808	808
Non Current liabilities	**17**	**(34)**	**(54)**	**(7)**	**(7)**
Current liabilities	**576**	**700**	**668**	**686**	**720**
Total Sources	**1,965**	**2,111**	**2,103**	**2,205**	**2,304**
Net Block	930	977	1,234	1,358	1,468
CWIP	168	219	71	57	50
Non current investments	214	233	233	233	233
Total Non current assets	**1,311**	**1,429**	**1,538**	**1,648**	**1,751**
Cash	174	207	119	99	62
Inventories	338	331	304	312	338
Receivables	75	71	70	74	82
Other Current Assets	67	72	72	72	72
Current Assets	**654**	**682**	**565**	**557**	**553**
Total Assets	**1,965**	**2,111**	**2,103**	**2,205**	**2,304**

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs bn)	FY22	FY23	FY24E	FY25E	FY26E
PAT	**297**	**26**	**154**	**210**	**257**
Add: Depreciation	60	75	82	88	95
Add: Interest	(6)	(6)	-	-	-
Less : Taxes Paid	(54)	(6)	(30)	(41)	(50)
Add: Other Adjustments	37	115	(35)	(33)	(29)
Less: WC changes	(73)	31	(23)	5	1
Total OCF	**263**	**233**	**147**	**230**	**274**
OCF w/o WC changes	335	202	170	225	273
Capital Expenditure	(100)	(143)	(188)	(200)	(190)
Changes in investments	(59)	36	-	-	-
Interest/ Dividends recd	0	0	-	-	-
Total ICF	**(160)**	**(107)**	**(188)**	**(200)**	**(190)**
Free Cash Flow	162	90	(41)	30	84
Share Issuances	1	1	-	-	-
Change in Borrowings	(81)	51	20	-	-
Dividends	(16)	(42)	(8)	(8)	(8)
Interest Payments	(51)	(69)	(68)	(71)	(75)
Others	-	-	-	-	-
Total Financing CF	**(147)**	**(60)**	**(56)**	**(78)**	**(82)**
Net change in cash	(44)	66	(97)	(48)	1
Opening Cash & CE	132	88	154	57	9
Closing Cash & CE	**88**	**154**	**57**	**9**	**10**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
YoY growth in Revenue	84%	13%	-4%	5%	10%
YoY growth in EBITDA	96%	-52%	55%	22%	15%
YoY growth in NI	164%	-82%	200%	37%	22%
ROCE	25%	9%	15%	18%	21%
ROE	31%	5%	16%	19%	22%
Per Share Numbers (Rs):					
Reported Earnings	89	13	46	63	77
Book Value	278	272	282	297	324
CPS	111	46	80	99	116
Valuations (x)					
P/E	9.2	63.8	17.8	13.0	10.7
EV/EBITDA	6.1	12.7	8.2	6.7	5.8
EV/Sales	1.7	1.5	1.5	1.5	1.3
P/BV	2.9	3.0	2.9	2.7	2.5

Source: Company, Systematix Institutional Research

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