

Expansion on track; steady margins likely in Q3FY24

JSW Steel (JSTL)'s reported better-than-expected EBITDA of Rs 84.5bn (CentrumE: Rs73bn), up 20% QoQ. Standalone numbers (EBITDA of Rs69bn, up 42% QoQ; CentrumE: Rs59.3bn) outperformed due to higher sales volume, lower than expected coking coal cost as well as royalty cost. Lower coking coal cost primarily aided sharp fall in CoP which more than offset decline in steel realisation leading to higher EBITDA/t by Rs2,890/t QoQ of Rs12,750; (CentrumE: EBITDA/t of Rs11,205). The performance of overseas subsidiaries stood lower amid demand slowdown. While domestic subsidiaries posted volumes growth bust miss on margins. We factor in margin compression in H2FY24 due to higher coking coal price and hence lower FY24 EPS by 25%. Further, we roll over our valuation to mid-FY26, resulting in 7% increase in our TP to Rs869/sh, valuing at 6x FY25/FY26 average EV/EBITDA (Earlier: Rs814/sh) and upgrade our rating to ADD (Earlier: Reduce).

Lower coking coal price, and Higher volume aided EBITDA; adj EBITDA/t up to Rs 12,750
JSTL's standalone adjusted EBITDA increased by 29.3% QoQ to ~Rs69bn and EBITDA/t increased by Rs2,890 QoQ to Rs12,750/t lead primarily by higher volumes (up 10% QoQ to 5.4mt) and lower coking coal (down ~USD54/t QoQ) partially offset by lower blended realisation (down Rs4,439/t; 2.41% QoQ). Exports remained lower due to muted demand during the quarter. Bhushan Power Q2FY24 EBITDA was up 5.9% QoQ at Rs7.4bn. Another subsidiary, JSW Steel coated products EBITDA rose by 6% QoQ. Management guided coking coal cost to decrease by USD25-30/t QoQ in Q3FY24 and largely offset by increase in steel prices in September and Oct 2023, leading to rangebound margin outlook for near term.

Net debt up ~3.6% QoQ to ~Rs692bn, on account of merger with JISPL

The Net debt increases primarily due to additions in borrowings arising from merger of JISPL. As on Q2FY24 end stood at Rs692bn up Rs24bn QoQ. The capex spent stood at Rs37bn in Q2FY24. Management maintains FY24 capex guidance of Rs188bn. JSTL expects to add ~8.5mtpa in next 1.5 years to ~37mtpa. Further, targets to reach ~50mtpa by FY31. Net Debt/EBITDA dropped to 2.52x as against 3.14x in Q1FY24. Project updates: 1) The 5mtpa expansion project at vijayanagar is expected to completely by end of FY24 2) The Phase II expansion at BPSL from 3.5mtpa to 5mtpa is expected to complete by end of FY24 and 3) Colour coated steel line of 0.12mtpa in Jammu & Kashmir is expected to completed in Q4FY24.

Q3FY24 margins likely to remain steady; Recommend ADD with TP of Rs869

The steel demand in domestic markets continue to remain robust. The international steel prices have bottomed out and likely to rise to offset sharp rise in coking coal prices in H2FY24. We expect JSW Steel sales volume to grow by 11% CAGR over FY23-26 years to 27.2mt in standalone business in FY26. With moderation in raw material cost, we expect EBITDA to grow by 36% CAGR by FY26E and margins to remain healthy (EBITDA/t of ~Rs14300/t in FY25/FY26. The expansion visibility remains strong and planned out target to reach 50mt by FY31. We recommend ADD with a TP of Rs 869.

Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	4,45,840	4,17,780	6.7	4,22,130	5.6	17,23,799	19,07,339	20,84,360
EBITDA	78,860	17,520	350.1	70,460	11.9	3,06,412	4,13,915	4,55,314
EBITDA margin (%)	17.7	4.2		16.7		17.5	21.4	21.6
Adj. Net profit	21,710	(14,390)	(250.9)	23,380	(7.1)	1,12,966	1,91,084	2,17,011
Adj. EPS (Rs)	9.0	(6.0)	(250.9)	9.7	(7.1)	47.1	79.6	90.4
EPS growth (%)						217.9	69.2	13.6
PE (x)						16.3	9.7	8.5
EV/EBITDA (x)						7.9	5.7	5.0
PBV (x)						2.4	2.0	1.7
RoE (%)						16.0	22.8	21.3
RoCE (%)						11.8	15.9	16.3

Source: Company, Centrum Broking

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Market Data

Bloomberg:	JSTL IN
52 week H/L:	840/615
Market cap:	Rs1881.5bn
Shares Outstanding:	2445.5mn
Free float:	34.0%
Avg. daily vol. 3mth:	23,60,838

Source: Bloomberg

Changes in the report

Rating:	ADD; upgrade from Reduce
Target price:	Rs869; up 7%
EPS:	FY24E EPS: Rs47; down 25% FY25E EPS: Rs80; up 3%

Source: Centrum Broking

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	44.8	45.4	45.4	45.2
FIIs	11.1	11.0	11.0	11.0
DIIIs	9.5	9.6	9.4	9.3
Public/other	34.6	34.0	34.2	34.5

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Actual Q2FY24	Centrum Q2FY24	Variance (%)
Revenue	4,45,840	4,22,110	5.6
EBITDA	78,860	73,465	7.3
EBITDA margin	17.7	17.4	
Rep. PAT	27,600	25,333	8.9
Adj. PAT	21,710	25,333	-14.3

Source: Bloomberg, Centrum Broking



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Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	17,46,938	17,46,678	0.0	19,30,479	18,90,635	2.1
EBITDA	3,06,412	3,54,187	-13.5	4,13,915	4,06,665	1.8
EBITDA margin	17.5	20.3		21.4	21.5	
Adj. PAT	1,12,966	1,51,524	-25.4	1,91,084	1,85,938	2.8
Diluted EPS (Rs)	47	63	-25.4	80	77	2.8

Source: Centrum Broking

JSW Steel versus NIFTY 50

	1m	6m	1 year
JSTL IN	(2.2)	7.5	22.4
NIFTY 50	(1.8)	10.9	11.3

Source: Bloomberg, NSE

Key assumptions

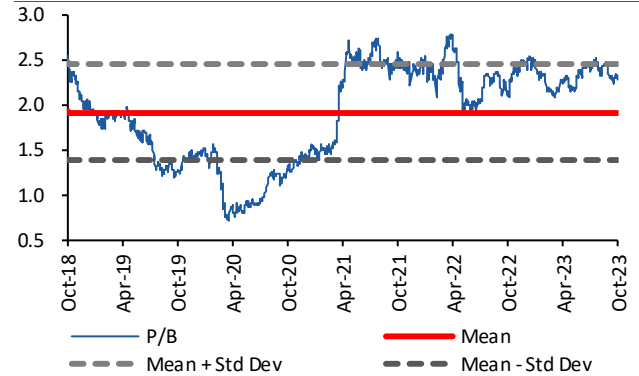
Particulars	FY23	FY24E	FY25E	FY26E
Average exchange rate (Rs/USD)	80.3	82.7	83.0	83.0
Steel sales volume (mt)	19.7	21.6	24.4	27.2
Blended steel realisation (Rs/t)	63,136	58,149	55,449	-3,670
Coking coal cost (Rs/t)	25,696	23,156	18,675	18,675
EBITDA/t (Rs)	7,801	11,588	14,278	14,262

Source: Centrum Broking

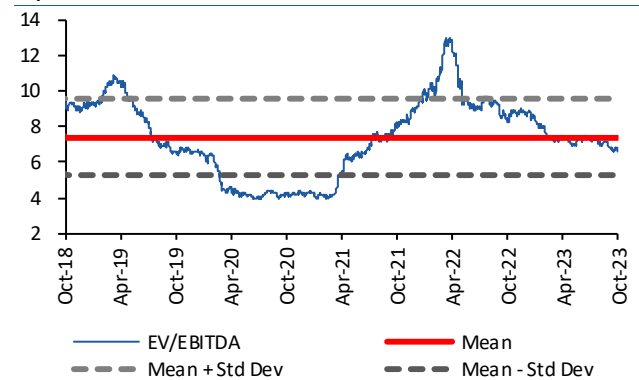
Valuations

We roll over our valuation to mid-FY26, resulting in 7% increase in our TP to Rs869/sh, valuing at 6x FY25/FY26 average EV/EBITDA (Earlier: Rs814/sh) and upgrade our rating to ADD (Earlier: Reduce).

P/B mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap (Rs mn)	CAGR (FY22-25E)			P/E (x)			EV/EBITDA (x)			FY25E		
		Sales	EBITDA	EPS	FY23	FY24E	FY25E	FY23	FY24E	FY25E	RoE (%)	ROCE (%)	Div. Yield
Tata Steel	15,03,346	-8.4	-21.9	-35.4	17.4	9.8	8.9	6.8	5.7	5.2	14.3	10.7	2.9
JSW Steel	18,45,600	15.2	3.0	-5.5	51.9	16.3	9.7	13.2	7.9	5.7	22.8	15.9	1.6
JSPL	6,65,929	4.7	-1.9	3.0	10.8	10.3	7.8	7.4	6.2	4.7	17.5	14.5	0.5
SAIL	3,47,584	-3.6	-24.0	-41.8	21.1	9.6	8.3	8.1	5.4	5.2	7.5	6.8	3.6
Jindal Stainless	3,86,157	26.7	9.6	-8.9	18.3	12.0	9.6	11.5	8.2	6.5	24.1	21.3	1.0

Source: Company, Centrum Broking

Key Concall Highlights

Domestic consumptions remains strong

- The domestic demand continues to remain strong. The manufacturing sector is doing well benefitting from global chain realignment. Besides, government capex on infrastructure development aiding resilience from global challenges.
- Indian steel consumption likely to grow by 6% by 8-9% to 133mt in FY24.
- Management maintains FY24 consolidated sales volume guidance of 25mt for and production volume of 26.3mt.
- Exports contribute to 11% mix given global headwinds whereas share of VAP grew to 62% Auto sector sales up 4% QoQ. Appliances 14% up renewables up 125% QOQ. Coated 17% QoQ up. Q2FY24 strong sales performance.

Production volume down 1% QoQ but sales volumes up 10% QoQ, leading to inventory reduction

- The 21FY24 capacity utilisation dropped to 89% vs 92% sequentially. Besides, destocking in channel, demand softness and shutdowns affected overall decline of ~1% QoQ in production to 5.40mt despite increase of ~10% QoQ IN sales volume at 5.41mt.
- During Q2FY24, exports contributed ~11% (flat QoQ) of standalone sales.
- Management expects exports to constitute 15% of volume in FY24.
- Chinese government maintains cap on CY22 production level which means there is possibility of production cut in rest of the year and hence exports can moderate too.

Lower CoP more than offset lower realisation lead to increase in margins QoQ

- During Q2FY24, the blended steel realisation was down ~Rs4,439/t (6.73%) QoQ to Rs61,527/t.
- Coking coal cost dropped by USD54/t in Q2FY24 against guidance of USD45-50/t. Company maintains 2.5 months of inventory. Company guided USD30/t increase in cost for Q3FY24.

US and Indian subsidiaries reports mixed performance

- The JSW Steel Ohio (Acero) reported lower volumes sequentially. It sold HRC 59,136t, down 21.36% QoQ and Slabs is also down by 36% QoQ at 1,16,091t. lower volume and realisation led decrease in EBITDA to USD-29.39mn (vs loss of USD2.6mn in Q1FY24). However, its Plate & Pipe mill recorded 39% decrease in volumes and EBITDA of USD45mn, down 45% QoQ.
- JSW Steel Italy produced 61,520t (down 37.5% QoQ) and while it sold 78,651t (up 6.5% QoQ) in Q2FY24. EBITDA witnessed loss of EUR 8.86mn vs 18.6 in Q1FY24.
- JSW Steel coated products sold 1.09mt, up 15% QoQ. Realisation stood lower 5.47% QoQ at Rs82,248/t. However, on account of low raw material cost, EBITDA reported 6.2% QoQ up at Rs4.11bn (Q1: Rs3.8bn)

Bhushan Power update

- During Q2FY24 EBITDA up 5.97% QoQ to Rs7.4bn on account of increase in volumes at 0.8mt (up by 16% QoQ) and low raw material cost.
- Bhushan Power is expanding phase 2 capacity from 3.5mtpa to 5mtpa which is likely to be completed by FY24 end.

Update on projects

- Capacity expansion of 5mtpa at Vijayanagar is expected to completely by end of FY24
- Colour coated steel line of 0.12mtpa in Jammu & Kashmir is expected to completed in Q4FY24
- The Phase II expansion at BPSL from 3.5mtpa to 5mtpa is expected to complete by end of FY24
- Targets addition of 8.5mtpa to 37mtpa capacity in India in next 2 years and further to 50mtpa by FY30-31. Brownfield growth potential of ~5mt at each of Vijayanagar, Dolvi and BPSL.

Capex

- Standalone capex at Rs3.7bn and consolidated capex stood at Rs3.8bn in Q2FY24
- FY24 capex for India projects and consolidated is estimated at Rs188bn and Rs200bn respectively.

Net Debt

- Net Debt as on Q2FY24 end stood at Rs692bn up Rs24bn QoQ primarily due to merger of JISPL leading to consolidation of ~Rs22bn.
- Net debt to EBITDA reported stood at 2.52x from 3.14x in Q1FY24.

Exhibit 1: Key financials

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Consolidated							
Revenue	4,17,780	3,91,340	4,69,620	4,22,130	4,45,840	6.7	5.6
Gross Profit	1,40,420	1,76,580	2,24,470	2,08,430	2,02,190	44.0	-3.0
EBITDA	17,520	45,470	79,390	70,460	78,860	350.1	11.9
Adjusted PAT	-8,480	4,900	36,640	23,380	21,710	-356.0	-7.1
Standalone							
EBITDA- Standalone	17,420	40,300	62,470	48,610	68,980	296.0	41.9
EBITDA- (Consol-Standalone)	100	5,170	16,920	21,850	9,880	9,780.0	-54.8
on per tonne basis (Rs/t)							
Realisation	64032	61729	64704	65966	61527	-3.9	-6.7
RM Cost	45,072	37,816	39,879	40,645	35,860	-20.4	-11.8
Staff	996	1,069	898	1,197	1,065	6.9	-11.0
Other Exp	15,313	15,469	13,636	14,811	12,688	-17.1	-14.3
Gross Profit	19,786	24,679	25,532	25,868	26,503	33.9	2.5
EBITDA	3,477	8,141	10,998	9,860	12,750	266.7	29.3

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	14,38,290	16,36,460	17,23,799	19,07,339	20,84,360
Operating Expense	8,39,190	11,67,290	12,42,089	13,08,971	14,16,948
Employee cost	34,930	39,150	72,026	75,828	82,609
Others	1,99,520	2,67,690	1,26,411	1,31,765	1,52,629
EBITDA	3,90,070	1,85,470	3,06,412	4,13,915	4,55,314
Depreciation & Amortisation	60,010	74,740	79,330	83,740	88,330
EBIT	3,30,060	1,10,730	2,27,082	3,30,175	3,66,984
Interest expenses	49,680	69,020	82,819	78,819	78,819
Other income	15,310	10,300	11,800	11,800	11,000
PBT	2,95,690	52,010	1,56,063	2,63,155	2,99,165
Taxes	88,070	15,160	40,509	68,306	77,653
Effective tax rate (%)	29.8	29.1	26.0	26.0	26.0
PAT	2,07,620	36,850	1,15,554	1,94,849	2,21,512
Minority/Associates	6,440	(1,320)	(2,588)	(3,765)	(4,501)
Recurring PAT	2,14,060	35,530	1,12,966	1,91,084	2,17,011
Extraordinary items	(7,410)	5,910	0	0	0
Reported PAT	2,06,650	41,440	1,12,966	1,91,084	2,17,011
Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	84.3	13.8	5.3	10.6	9.3
EBITDA	93.7	(52.5)	65.2	35.1	10.0
Adj. EPS	168.9	(83.4)	217.9	69.2	13.6
Margins (%)					
Gross	60.9	45.3	42.8	45.6	45.6
EBITDA	26.6	11.2	17.5	21.4	21.6
EBIT	22.5	6.7	13.0	17.1	17.4
Adjusted PAT	14.1	2.5	6.5	9.9	10.3
Returns (%)					
ROE	37.5	5.3	16.0	22.8	21.3
ROCE	19.6	6.0	11.8	15.9	16.3
ROIC	22.7	6.6	13.4	18.0	18.4
Turnover (days)					
Gross block turnover ratio (x)	1.1	1.2	1.1	1.1	1.1
Debtors	15	16	15	15	15
Inventory	60	74	72	71	71
Creditors	58	76	82	80	81
Net working capital	50	34	32	29	32
Solvency (x)					
Net debt-equity	0.8	0.9	0.7	0.6	0.4
Interest coverage ratio	7.9	2.7	3.7	5.3	5.8
Net debt/EBITDA	1.4	3.2	1.9	1.3	1.0
Per share (Rs)					
Adjusted EPS	89.2	14.8	47.1	79.6	90.4
BVPS	280.4	273.7	314.9	384.2	463.0
CEPS	114.2	45.9	80.1	114.5	127.2
DPS	17.4	2.2	7.1	11.9	13.6
Dividend payout (%)	20.2	12.9	15.0	15.0	15.0
Valuation (x)					
P/E	8.6	51.9	16.3	9.7	8.5
P/BV	2.7	2.8	2.4	2.0	1.7
EV/EBITDA	6.1	13.2	7.9	5.7	5.0
Dividend yield (%)	2.3	0.3	0.9	1.6	1.8

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	2,400	2,400	2,400	2,400	2,400
Reserves & surplus	6,54,440	6,38,420	7,37,148	9,03,535	10,92,723
Shareholders fund	6,72,970	6,56,950	7,55,678	9,22,065	11,11,253
Minority Interest	12,380	13,440	16,128	19,993	24,594
Total debt	7,09,990	8,08,190	7,58,190	7,08,190	6,58,190
Non Current Liabilities	38,250	25,800	25,800	25,800	25,800
Def tax liab. (net)	76,210	79,360	79,479	79,679	79,907
Total liabilities	15,09,800	15,83,740	16,35,275	17,55,727	18,99,743
Gross block	12,53,700	13,60,570	15,60,570	17,60,570	19,60,570
Less: acc. Depreciation	(2,77,030)	(3,36,590)	(4,15,920)	(4,99,660)	(5,87,990)
Net block	9,76,670	10,23,980	11,44,650	12,60,910	13,72,580
Capital WIP	1,67,560	2,20,070	1,55,070	1,55,070	1,55,070
Net fixed assets	11,67,850	12,66,180	13,21,850	14,38,110	15,49,780
Non Current Assets	93,940	1,09,700	1,09,700	1,09,700	1,09,700
Investments	49,320	48,010	49,510	51,010	52,510
Inventories	3,37,870	3,31,350	3,54,205	3,91,919	4,28,293
Sundry debtors	74,570	71,340	75,147	83,149	90,866
Cash & Cash Equivalents	1,73,910	2,07,190	1,86,077	1,82,151	2,06,614
Loans & advances	7,590	7,170	7,170	7,170	7,170
Other current assets	59,800	64,450	77,722	83,689	89,444
Trade payables	3,08,890	3,82,030	4,02,419	4,45,266	4,86,592
Other current liab.	1,43,600	1,42,210	1,42,210	1,42,210	1,42,210
Provisions	2,560	2,800	6,868	9,085	11,222
Net current assets	1,98,690	1,54,460	1,48,825	1,51,517	1,82,363
Total assets	15,09,800	15,83,740	16,35,275	17,55,727	18,99,743

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	2,97,450	56,550	1,56,063	2,63,155	2,99,165
Depreciation & Amortisation	60,010	74,740	79,330	83,740	88,330
Net Interest	45,840	66,550	0	0	0
Net Change – WC	(72,640)	31,050	(15,359)	(6,418)	(6,155)
Direct taxes	(53,790)	(6,380)	(40,390)	(68,106)	(77,425)
Net cash from operations	2,62,700	2,33,230	1,79,644	2,72,372	3,03,914
Capital expenditure	(1,00,480)	(1,47,490)	(1,35,000)	(2,00,000)	(2,00,000)
Acquisitions, net	(200)	0	0	0	0
Investments	(5,160)	(3,280)	0	0	0
Others	(54,030)	43,660	0	0	0
Net cash from investing	(1,59,870)	(1,07,110)	(1,35,000)	(2,00,000)	(2,00,000)
FCF	1,62,020	85,740	44,644	72,372	1,03,914
Issue of share capital	720	590	0	0	0
Increase/(decrease) in debt	(74,650)	50,600	0	0	0
Dividend paid	(15,710)	(41,940)	(16,945)	(28,663)	(32,552)
Interest paid	(51,020)	(69,020)	0	0	0
Others	(5,910)	0	0	0	0
Net cash from financing	(1,46,570)	(59,770)	(16,945)	(28,663)	(32,552)
Net change in Cash	(43,740)	66,350	27,699	43,709	71,363

Source: Company, Centrum Broking

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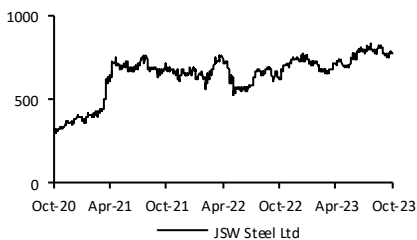
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JSW Steel



Source: Bloomberg

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