

Continued out-performance; growth capex on track

JSW Steel reported 2Q consol. EBITDA of INR79bn, higher than JMfe of INR73bn. The beat was primarily driven by higher than expected coking coal benefits and significantly improved scale of operations. Standalone EBITDA came in at INR69bn, implying an EBITDA/t of INR12.8k– up INR3k/t QoQ on account of higher scale of operations (+10% volumes) and sharply lower coal cost. BPSL reported an EBITDA of INR7.5bn vs INR7bn in 1Q while JSW coated reported an EBITDA of INR4.1bn vs INR3.9bn. Net debt stood at INR692bn up ~INR24bn QoQ primarily on account of JSW Ispat merger. Key takeaways from the call are a) coking coal cost is expected to increase by <US\$30/t in 3QFY24 b) realisation for 3QFY24 will be contingent on sustainability of current raw material price - demand not being a problem c) Post FY25 - capacity to increase from 37mn tons to 50 mn tons through brownfield growth at Vijayanagar, Dolvi and BPSL. JSW continues to aggressively add capacity across facilities – a) Vijayanagar expansion to be completed by FY24 end b) BPSL Phase-II expansion (from 3.5mtpa to 5mtpa) is expected to be completed by FY24. Strong growth pipeline and increased focus on cost efficiency augurs well for the company. Maintain BUY.

- Higher coking coal benefits and higher scale of operations aid standalone margins:** Sales for the quarter was 5.4mn tons, up 10% QoQ given strong economic momentum and consequent higher steel consumption. Realisations declined by ~4k/ton QoQ as steel prices moderated. EBITDA/ton came in at INR12.8k, above JMfe of INR10k. The EBITDA was higher QoQ primarily due to higher sales volumes and higher coal price benefits, partially offset by lower realisation. Net profit stood at INR27bn vs INR17bn in 1Q.
- Indian subsidiaries report significantly improved performance; foreign subsidiaries disappoint:** JSW Coated reported an EBITDA of INR4.1bn in 2Q vs EBITDA of INR3.9bn in 1Q. Ohio operations reported an EBITDA loss of US\$29mn vs EBITDA gain of US\$2.4mn in 1Q. US plate and pipe mill registered an EBITDA of US\$26mn vs US\$45.0mn in 1Q. BPSL reported sequentially up revenues (6% QoQ) with EBITDA at INR7.5bn vs EBITDA of INR7bn in 1Q. The decline in EBITDA/ton was primarily due to lower realisations.
- Net Debt increases due to JSW Ispat merger; projects on track:** Company reported a net debt of INR692bn up INR24bn QoQ on account of JSW Ispat merger. The company incurred a capex of INR38bn during the quarter. The 5mtpa brownfield expansion at Vijayanagar is progressing well, with civil works underway and long lead time items ordered. The company expects Vijayanagar expansion to be completed by end FY24. BPSL Phase-II expansion (from 3.5mtpa to 5mtpa) is expected to be completed by end FY24. The company commissioned colour coated steel line of 0.25mtp at Rajpura in May while 0.12mtpa steel line in J&K is expected to be completed by Q4FY24. Capex guidance for FY24/25 stands at INR188bn/185bn. Post FY25 – JSW plans to increase capacity to 50 mn tons through brownfield growth at Vijayanagar, Dolvi and BPSL.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	830
Upside/(Downside)	7.9%
Previous Price Target	800
Change	3.8%

Key Data – JSTL IN

Current Market Price	INR769
Market cap (bn)	INR1,881.5/US\$22.6
Free Float	34%
Shares in issue (mn)	2,417.2
Diluted share (mn)	2,417.2
3-mon avg daily val (mn)	INR1,882.9/US\$22.7
52-week range	840/615
Sensex/Nifty	65,398/19,543
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	-2.2	7.5	22.4
Relative*	-1.3	-2.0	11.0

* To the BSE Sensex

JM Financial Research is also available on:
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Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	1,463,710	1,659,600	1,607,805	1,748,518	1,827,398
Sales Growth (%)	83.3	13.4	-3.1	8.8	4.5
EBITDA	390,070	185,470	278,467	324,581	348,355
EBITDA Margin (%)	26.6	11.2	17.3	18.6	19.1
Adjusted Net Profit	214,060	35,530	97,933	119,556	122,905
Diluted EPS (INR)	88.6	14.7	40.5	49.5	50.8
Diluted EPS Growth (%)	167.8	-83.4	175.6	22.1	2.8
ROIC (%)	21.3	6.3	10.3	11.4	10.9
ROE (%)	37.6	5.3	13.9	14.9	13.4
P/E (x)	8.7	52.3	19.0	15.5	15.1
P/B (x)	2.8	2.8	2.5	2.2	1.9
EV/EBITDA (x)	6.2	13.4	9.0	7.7	7.1
Dividend Yield (%)	2.3	0.4	0.3	0.5	0.7

Source: Company data, JM Financial. Note: Valuations as of 20/Oct/2023

Exhibit 1. Quarterly performance - consolidated (INR mn)

	2QFY24	2QFY24E	%Var	2QFY23	YoY %	1QFY24	QoQ %
Net Sales	445,840	421,830	5.7	417,780	6.7	422,130	5.6
EBITDA	78,860	73,232	7.7	17,520	350.1	70,460	11.9
EBITDA (%)	17.7	17.4		4.2		16.7	
PAT- Adjusted	21,710	25,269	-14.1	-14,390	-250.9	23,380	-7.1
Key monitorables (INR bn)							
Net Debt (INR bn)	692	0		657		668	
Capex (INR bn)	38	0		29		41	

Source: Company, JM Financial

Exhibit 2. Quarterly performance - standalone (INR mn)

	2QFY24	2QFY24E	% Var	2QFY23	YoY %	1QFY24	QoQ %
Net Sales	337,380	341,920	-1.3	324,940	3.8	327,910	2.9
Volumes (mt)	5.41	5.30	2.1	5.01	8.0	4.93	9.7
Realization (Rs/ton)	62,362	64,513	-3.3	64,858	-3.8	66,513	-6.2
Expenditure	268,400	281,189	-4.5	307,520	-12.7	279,300	-3.9
EBITDA	68,980	60,731	13.6	17,420	296.0	48,610	41.9
EBITDA (%)	20.4	17.8		5.4		14.8	
EBITDA/ton (Rs)	12,750	11,459	11.3	3,477	266.7	9,860	29.3
Other income	4,290	4,599		4,220		4,380	
Depreciation	13,590	13,283	2.3	12,070	12.6	12,650	7.4
EBIT	59,680	52,048	14.7	9,570	523.6	40,340	47.9
Interest	15,310	15,736		10,930		14,570	
PBT	44,370	36,312	22.2	-1,360	-3,362.5	25,770	72.2
Tax	17,250	11,983		-450		8,720	
Eff. Tax rate (%)	38.9	33.0		33.1		33.8	
XO items	2,010	0		0		0	
PAT- Reported	29,130	24,329		-910		17,050	
PAT- Adjusted	27,120	24,329	11.5	-910	-3,080.2	17,050	59.1
Diluted EPS (Rs)	11.2	10.1		-0.4		7.1	

Source: Company, JM Financial

Exhibit 3. Quarterly performance - JSW Coated Products (INR mn)

	2QFY24	2QFY24E	% Var	2QFY23	YoY %	1QFY24	QoQ %
Net Sales	89,650	79,910	12%	67,230	33%	81,790	10%
Volumes (m tons)	1.1	0.9	16%	0.8	38%	0.9	16%
Realization (Rs/ton)	82,248	85,011		85,101	-3%	87,011	-5%
EBITDA	4,110	4,200	-2%	-790	NA	3,870	6%
EBITDA (%)	5%	5%	-13%	-1%		5%	
EBITDA/ton	3,771	4,000	-6%	-1,000	NA	4,117	-8%

Source: Company, JM Financial

Exhibit 4. Quarterly performance - US Plate and Pipe Mill

	2QFY24	2QFY23	YoY %	1QFY24	QoQ %
Plate mill					
Production (tons)	88,090	77,172	14.1%	121,833	-28%
Sales (tons)	92,423	74,665	23.8%	108,519	-15%
Pipe mill					
Production (tons)	5,052	4,969	1.7%	10,339	-51%
Sales (tons)	6,335	4,576	38.4%	11,383	-44%
EBITDA (incl. other income) (USD mn)	26	25	5.0%	45	-42%

Source: Company, JM Financial

Exhibit 5. Quarterly performance - JSW Steel USA Ohio (Acero)

	2QFY24	2QFY23	YoY %	1QFY24	QoQ %
Sales (tons)	59,136	52,862	12%	75,119	-21%
EBITDA (incl. other income) (USD mn)	-29	-40		3	

Source: Company, JM Financial

Exhibit 6. Quarterly performance – BPSL (INR mn)

	2QFY24	2QFY23	YoY %	1QFY24	QoQ %
Revenue from Operations	58,170	48,050	21.1%	54,740	6%
Volumes (mt)	0.80	0.64	25.0%	0.69	16%
Realization (Rs/ton)	72,713	75,078		79,333	
EBITDA	7,450	-1,830	-507.1%	7,030	6%
EBITDA (%)	13%	0		0	
EBITDA/ton (Rs)	9,313	-2,859		10,188	
PAT	2,100	-3,400	-161.8%	1,990	NA

Source: Company, JM Financial

Exhibit 7. JSW Steel (Consol.) volume mix

Segment-wise deliveries (mn tons)	2QFY24	2QFY23	YoY %	1QFY24	QoQ %
OE	2.6	2.2	16	2.3	14
as a % of sales	47%	44%		49%	
Retail	2.2	2.2	1	1.7	26
as a % of sales	40%	43%		38%	
Auto	0.7	0.7	8	0.6	13
as a % of sales	13%	13%		14%	
Total deliveries	5.5	5.1	8	4.7	18
Domestic	89%	90%		85%	
Export	11%	10%		15%	

Source: Company, JM Financial

Exhibit 8. JSW steel – Key assumptions and estimates (Standalone)

	FY24E	FY25E	FY26E
Net sales (INR bn)	1231	1304	1353
Volume (mn tons)	21.2	23.3	25.6
EBITDA (INR bn)	238	267	285
EBITDA/t (INR)	11,259	11,471	11,152
PAT (INR bn)	88	93	91
INR/USD	81	81	81

Source: JM Financial

JSW Steel: Target Price

FY26E EBITDA (INR bn)	348
Multiple (x)	7
Target EV (INR bn)	2351
Net debt (INR bn)	584
Residual Mcap (INR bn)	1767
CWIP (INR bn)	232
No. of shares (mn)	2417
TP (INR/share) ex. Inv	823
JSW Energy	7
TP (INR/share)	830

Source: JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	1,463,710	1,659,600	1,607,805	1,748,518	1,827,398	
Sales Growth	83.3%	13.4%	-3.1%	8.8%	4.5%	
Other Operating Income	0	0	0	0	0	
Total Revenue	1,463,710	1,659,600	1,607,805	1,748,518	1,827,398	
Cost of Goods Sold/Op. Exp	664,720	986,060	924,189	989,956	1,028,268	
Personnel Cost	34,930	39,150	44,199	47,344	49,176	
Other Expenses	373,990	448,920	360,951	386,637	401,600	
EBITDA	390,070	185,470	278,467	324,581	348,355	
EBITDA Margin	26.6%	11.2%	17.3%	18.6%	19.1%	
EBITDA Growth	93.7%	-52.5%	50.1%	16.6%	7.3%	
Depn. & Amort.	60,010	74,740	82,376	100,338	116,637	
EBIT	330,060	110,730	196,090	224,243	231,717	
Other Income	15,310	10,300	9,822	11,265	12,419	
Finance Cost	49,680	69,020	64,913	70,377	70,377	
PBT before Excep. & Forex	295,690	52,010	140,999	165,132	173,759	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	295,690	52,010	140,999	165,132	173,759	
Taxes	88,070	15,160	43,116	45,626	50,904	
Extraordinary Inc./Loss(-)	-7,410	5,910	0	0	0	
Assoc. Profit/Min. Int.(-)	11,900	-1,420	-50	-50	-50	
Reported Net Profit	206,650	41,440	97,933	119,556	122,905	
Adjusted Net Profit	214,060	35,530	97,933	119,556	122,905	
Net Margin	14.6%	2.1%	6.1%	6.8%	6.7%	
Diluted Share Cap. (mn)	2,417.2	2,417.2	2,417.2	2,417.2	2,417.2	
Diluted EPS (INR)	88.6	14.7	40.5	49.5	50.8	
Diluted EPS Growth	167.8%	-83.4%	175.6%	22.1%	2.8%	
Total Dividend + Tax	41,938	8,218	5,811	9,443	13,075	
Dividend Per Share (INR)	17.4	3.4	2.4	3.9	5.4	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	672,970	656,950	749,072	859,185	969,015	
Share Capital	3,010	3,010	3,010	3,010	3,010	
Reserves & Surplus	669,960	653,940	746,062	856,175	966,005	
Preference Share Capital	0	0	0	0	0	
Minority Interest	12,380	13,440	13,390	13,340	13,290	
Total Loans	761,990	853,230	853,867	853,867	853,867	
Def. Tax Liab. / Assets (-)	76,210	79,360	79,360	79,360	79,360	
Total - Equity & Liab.	1,523,550	1,602,980	1,695,689	1,805,752	1,915,532	
Net Fixed Assets	1,167,850	1,266,180	1,375,622	1,446,418	1,510,916	
Gross Fixed Assets	1,283,850	1,390,050	1,461,893	1,743,027	1,924,162	
Intangible Assets	1,190	1,280	1,280	1,280	1,280	
Less: Depn. & Amort.	286,240	346,810	429,186	529,525	646,162	
Capital WIP	169,050	221,660	341,636	231,636	231,636	
Investments	49,320	48,060	45,753	45,753	45,753	
Current Assets	747,680	796,540	780,857	844,599	897,721	
Inventories	337,870	331,350	280,167	294,731	295,764	
Sundry Debtors	74,570	71,340	82,157	96,431	97,098	
Cash & Bank Balances	173,830	207,140	203,623	208,312	247,663	
Loans & Advances	0	0	0	0	0	
Other Current Assets	161,410	186,710	214,911	245,125	257,197	
Current Liab. & Prov.	441,300	507,800	506,544	531,017	538,858	
Current Liabilities	423,930	491,050	443,284	461,871	463,286	
Provisions & Others	17,370	16,750	63,260	69,146	75,572	
Net Current Assets	306,380	288,740	274,314	313,581	358,863	
Total - Assets	1,523,550	1,602,980	1,695,689	1,805,752	1,915,532	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	304,860	50,640	140,999	165,132	173,759	
Depn. & Amort.	60,010	74,740	82,376	100,338	116,637	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCap.	-22,890	50,950	10,909	-34,578	-5,931	
Others	-10,140	5,960	50	50	50	
Taxes Paid	-88,070	-15,160	-43,116	-45,626	-50,904	
Operating Cash Flow	243,770	167,130	191,218	185,316	233,611	
Capex	-130,000	-158,810	-191,819	-171,134	-181,135	
Free Cash Flow	113,770	8,320	-600	14,182	52,476	
Inc (-) / Dec in Investments	36,490	1,260	2,307	0	0	
Others	-122,884	-59,292	-50	-50	-50	
Investing Cash Flow	-216,394	-216,842	-189,562	-171,184	-181,185	
Inc / Dec (-) in Capital	593	0	0	0	0	
Dividend + Tax thereon	-41,938	-8,218	-5,811	-9,443	-13,076	
Inc / Dec (-) in Loans	59,670	91,240	637	0	0	
Others	0	0	0	0	0	
Financing Cash Flow	18,324	83,022	-5,174	-9,443	-13,076	
Inc / Dec (-) in Cash	45,700	33,310	-3,517	4,690	39,350	
Opening Cash Balance	128,130	173,830	207,140	203,623	208,312	
Closing Cash Balance	173,830	207,140	203,623	208,312	247,663	

Source: Company, JM Financial; Note: Other investing cash flows include translation gains/losses and acquisitions.

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	14.6%	2.1%	6.1%	6.8%	6.7%	
Asset Turnover (x)	1.1	1.1	1.0	1.0	1.0	
Leverage Factor (x)	2.4	2.4	2.3	2.2	2.0	
RoE	37.6%	5.3%	13.9%	14.9%	13.4%	

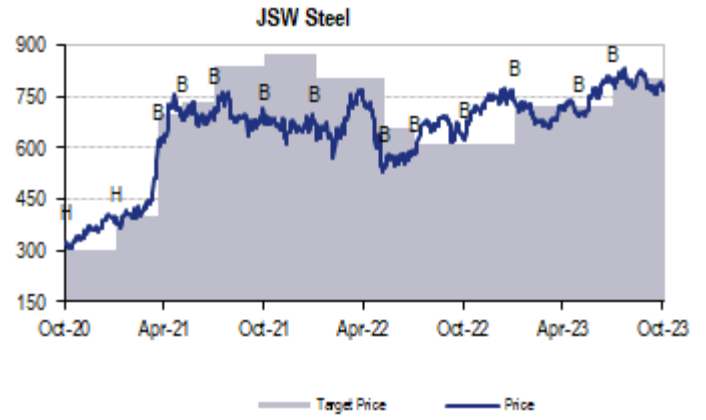
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	278.4	271.8	309.9	355.4	400.9	
ROIC	21.3%	6.3%	10.3%	11.4%	10.9%	
ROE	37.6%	5.3%	13.9%	14.9%	13.4%	
Net Debt/Equity (x)	0.8	0.9	0.8	0.7	0.6	
P/E (x)	8.7	52.3	19.0	15.5	15.1	
P/B (x)	2.8	2.8	2.5	2.2	1.9	
EV/EBITDA (x)	6.2	13.4	9.0	7.7	7.1	
EV/Sales (x)	1.7	1.5	1.6	1.4	1.3	
Debtor days	19	16	19	20	19	
Inventory days	84	73	64	62	59	
Creditor days	144	122	122	118	114	

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
24-Jan-20	Buy	290	
15-Apr-20	Buy	205	-29.3
23-May-20	Hold	170	-17.1
24-Jul-20	Hold	176	3.5
23-Oct-20	Hold	300	70.5
22-Jan-21	Hold	400	33.3
8-Apr-21	Buy	700	75.0
22-May-21	Buy	730	4.3
23-Jul-21	Buy	835	14.4
21-Oct-21	Buy	870	4.2
21-Jan-22	Buy	800	-8.0
28-May-22	Buy	655	-18.1
22-Jul-22	Buy	610	-6.9
21-Oct-22	Buy	610	0.0
22-Jan-23	Buy	720	18.0
19-May-23	Buy	720	0.0
21-Jul-23	Buy	800	11.1

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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