

July 21, 2024

RESULT REPORT Q1 FY25 | Sector: Metals and Mining

# JSW Steel Ltd

## Quarter hit by lower volumes and realizations

### Result Synopsis

JSW Steel's Q1FY25 performance was below the consensus estimates owing to lower-than-expected NSR and lower sales volumes. Net revenue from operations reported a 7.2% fall QoQ and was up 1.7% YoY; whereas EBITDA declined 10% on QoQ basis and 21.8% YoY. The company saw costs declining on the coking coal front by \$23/t which were offset by lower steel prices and higher iron ore pricing. Going ahead, the company sees falling prices for coking coal and can see about \$20/t benefit for the upcoming quarter. The current backward integration has moved up from 33% in FY24 to 38%-40% during Q1FY25. The company is currently working on its backward integration plans where it sees adding 4.5 mtpa of iron ore capacities in Karnataka. The share of value-added products in the product mix remains strong at 64%, reporting a best-ever percentage of VAP product sales.

The company's consolidated crude steel production stood at 6.35 mt, down 1.2% YoY and 6.5% on a QoQ basis owing to production maintenance shutdowns. The company's consolidated steel sales stood at 6.12 mt, up by 7.2% on a YoY basis and a fall of 9.1% QoQ.

On the industry wide trends, there has been quite a lot of expectations that the growth would improve post the China reopening, however it hasn't yet played out in the way the industry had been anticipating. China's production cuts haven't taken place and the exports have shot up drastically during the start of CY24, hurting the Indian producers due to the cheap imports flowing in. The Indian story however remains rigid and strong momentum continues with inflation moderating and improving demand across all sectors.

We value JSW Steel at an unchanged multiple of 7x FY26E EV/EBITDA, however we make cuts to our pricing estimates and EBITDA/t profile to arrive at our revised target price of Rs 911/sh.

### Result Highlights

- Consolidated revenue from operations for the quarter stood at Rs 429,430 mn (vs our estimate of Rs 477,015 mn; owing to lower volumes on account of production maintenance shutdowns), reporting a 7.2% fall sequentially.
- Consolidated EBITDA margins stood at 12.8% (vs our estimations of 15%) for the current quarter vs 13.2% in Q4FY24. The absolute EBITDA came in at Rs 55,100 mn, down 10% on a QoQ basis.
- Consolidated PAT for the quarter stood at Rs. 8,670 mn.
- Capacity utilization at Indian operations stood at 87% owing to maintenance shutdowns at Dolvi and BPSL manufacturing facilities.

### Exhibit 1: Actual vs estimates

Rs mn	Actuals	Estimates		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	429,430	477,015	426,722	11.1%	(0.6%)	Low volumes and lower than expected NSR impact the performance
EBITDA	55,100	73,937	59,541	34.2%	8.1%	
EBITDA (%)	12.83%	15.50%	13.95%	20.8%	8.7%	
PAT	8,450	2,129	14,150	(74.8%)	67.5%	

Source: YES Sec

Reco	: NEUTRAL
CMP	: Rs 889
Target Price	: Rs 911
Potential Upside	: +2.5%

### Stock data (as on Jul 19, 2024)

Nifty	24,531
52 Week h/l (Rs)	959 / 723
Market cap (Rs/USD mn)	2270092 / 27114
Outstanding Shares (mn)	2,437
6m Avg t/o (Rs mn):	1,988
Div yield (%):	-
Bloomberg code:	JSTL IN
NSE code:	JSWSTEEL

### Stock performance



	1M	3M	1Y
Absolute return	-5.1%	2.9%	13.1%

### Shareholding pattern (As of Mar'24 end)

Promoter	44.8%
FII+DII	36.4%
Others	18.4%

### Δ in estimates

FY26E	New	Old
Sales (mt)	31.00	30.12
EBITDA/t	12596/t	13501/t

### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	ADD
Target Price	911	976

### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	1,750,060	1,811,078	2,140,035
YoY (%)	5.5	3.5	18.2
EBIDTA	282,360	282,710	390,419
EBITDA (%)	16.1	15.6	18.2
PAT	88,120	80,398	137,518
ROE	11.0	9.2	13.8
ROCE	12.4	11.7	16.0

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## Operational Highlights

### Standalone volumes

- Crude steel production: 5.30 mn tonnes
- Steel sales: 5.09 mn tonnes

### Consolidated volumes

- Crude steel production: 6.35 mn tonnes
- Steel sales: 5.90 mn tonnes

## Exhibit 2: Consolidated Operational Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	q/q %	y/y %
Crude steel production (mt)	6.43	6.34	6.87	6.79	6.35	(6.5%)	(1.2%)
Saleable steel sales (mt)	5.71	6.34	6.00	6.73	6.12	(9.1%)	7.2%
Realization/t	73,928	70,322	69,900	68,750	70,168	2.1%	(5.1%)
EBITDA/t	12,340	12,438	11,967	9,100	9,003	(1.1%)	(27.0%)

Source: Company, YES Sec

## Exhibit 3: Consolidated Quarterly Snapshot

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	q/q %	y/y %
Net revenue	422,130	445,840	419,400	462,690	429,430	(7.2%)	1.7%
Cost of goods sold	280,730	300,050	269,300	317,970	297,360	(6.5%)	5.9%
Employee costs	11,610	10,970	11,820	11,510	12,480	8.4%	7.5%
Other expenses	59,330	55,960	66,480	71,970	64,490	(10.4%)	8.7%
EBITDA	70,460	78,860	71,800	61,240	55,100	(10.0%)	(21.8%)
EBITDA %	16.7%	17.7%	17.1%	13.2%	12.8%	(3.1%)	(23.1%)
Depreciation	19,000	20,190	20,590	21,940	22,090	0.7%	16.3%
Other income	3,310	2,370	1,940	2,420	1,640	(32.2%)	(50.5%)
Finance costs	19,630	20,840	19,960	20,620	20,730	0.5%	5.6%
Exceptional items	-	(5,890)	-	-	-	NA	NA
Profit before tax	34,800	45,850	33,030	20,120	13,800	(31.4%)	(60.3%)
Taxes	10,520	18,120	8,530	6,900	5,130	(25.7%)	(51.2%)
Profit after tax	24,280	27,730	24,500	13,220	8,670	(34.4%)	(64.3%)
Minority interest	-	130	350	230	220	(4.3%)	NA
Profit attributable to owners	24,280	27,600	24,150	12,990	8,450	(34.9%)	(65.2%)

Source: Company, YES Sec

## Exhibit 4: Standalone Operational Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	q/q %	y/y %
Crude steel production (mt)	5.44	5.40	5.72	5.69	5.30	(6.9%)	(2.6%)
Saleable steel sales (mt)	4.93	5.41	5.20	5.69	5.09	(10.5%)	3.2%
Realization/t	66,513	62,362	64,058	62,111	64,153	3.3%	(3.5%)
EBITDA/t	9,860	12,750	11,113	7,807	8,399	7.6%	(14.8%)

Source: Company, YES Sec

## Exhibit 5: Standalone Quarterly Snapshot

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	q/q %	y/y %
Net revenue	327,910	337,380	333,100	353,410	326,540	(7.6%)	(0.4%)
Cost of goods sold	229,900	223,270	221,330	251,000	230,750	(8.1%)	0.4%
Employee costs	5,900	5,760	6,060	5,850	6,600	12.8%	11.9%
Other expenses	43,500	39,370	47,920	52,140	46,440	(10.9%)	6.8%
EBITDA	48,610	68,980	57,790	44,420	42,750	(3.8%)	(12.1%)
EBITDA %	14.8%	20.4%	17.3%	12.6%	13.1%	4.2%	(11.7%)
Depreciation	12,650	13,590	13,510	14,600	14,600	0.0%	15.4%
Other income	4,380	4,290	3,860	4,510	3,960	(12.2%)	(9.6%)
Finance costs	14,570	15,310	15,510	15,690	15,900	1.3%	9.1%
Exceptional items	-	(2,010)	-	2,400	-	(100.0%)	NA
Profit before tax	25,770	46,380	32,630	16,240	16,210	(0.2%)	(37.1%)
Taxes	8,720	17,250	8,470	6,170	4,160	(32.6%)	(52.3%)
Profit after tax	17,050	29,130	24,160	10,070	12,050	19.7%	(29.3%)

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

### Macro-economic environment

- China's steel production shows no signs of slowing down and the steel exports continue to be on the rise which has remained a concern for the Indian steel industry.
- The property sector in China continues to be a drag on the steel industry however it was offset by strong growth in manufacturing and investments. In India, growth remains strong across sectors.
- Domestic steel prices remained high during April and May, however, saw a fall during June due to cheaper Chinese imports coming in.

### General business updates

- Transition towards green power continues to be the company's focus for sustainable practices - Company announced further 600 MW of renewable capacity – Wind: 400 MW and Solar: 200 MW
- Commissioning of new coking coal and iron ore mines on track.
- Share of exports fell due to non-favorable global macro-environment on account of low realizations and increase in Chinese exports globally.
- Capex spends of Rs 4,466 crores for the quarter.
- Board approved the transfer of Slurry Pipeline undertaking of JSW Utkal Steel Limited, for the transportation of iron ore from Nuagaon mines to Jagatsinghpur in the State of Odisha for a consideration of Rs 1,700 crores.
- BF at Vijayanagar expansion will be commissioned by the end of July 2025. Steel melting shop shall be commissioned by the end of September 2025. BPSL capacity expansion expected to be ramped up by Q3FY25.
- Increased iron ore volumes to kick in from Karnataka mines to the Vijayanagar plant. Captive iron ore usage overall is now at 38-40%. Focus also remains on adding mines in Goa and Maharashtra for the Dolvi manufacturing facilities.
  - Karnataka – existing mine capacity is of ~11.0 mtpa, looking to add another 4.5 mtpa capacity through 3 new mines.
  - Orissa has 4 operating mines currently – ~20.0 mtpa of current capacity. No new expansions expected forward.
  - Goa and Maharashtra – 2 mines in Goa and 2 in Maharashtra.
  - Jharsuguda – BPSL has 1 new mine coming up. This mine will give ~ 2 mtpa of incremental iron ore supply by the end of next year.
- JSW Steel secured 24 mines through auctions with total resources of ~1.6 bn tonnes. Out of these, 13 mines are now operational, and the remaining are going through various steps of necessary approvals.
  - In the near term, the company is increasing iron ore capacity in Karnataka from 7.0 to 15.5 mtpa.
  - The mines Goa will add 1.0 – 2.0 mtpa in the coming months.
- Company is in process of commissioning 3 coking coal mines – should produce 2.0 mtpa of clean coking coal.
  - Also acquired coking coal mines in Mozambique to source the raw material. Currently in the early stages of attaining regulatory approvals post which the production shall start.
  - Timeline for the commissioning of mines: 3 to 4 years from Q1FY25.

- Focus continues to be on the rise of VAP share which came in at 64% of the total sales for the quarter.
  - With new capacities coming in, JSW Steel wants to maintain the VAP production at >50% of the total sales mix.
- Cost optimization to become the pillar for growth and margin expansion for the company. The company will be meeting the capex requirement primarily through internal accruals with its debt now seems to have peaked out.

## Capex and Capacity

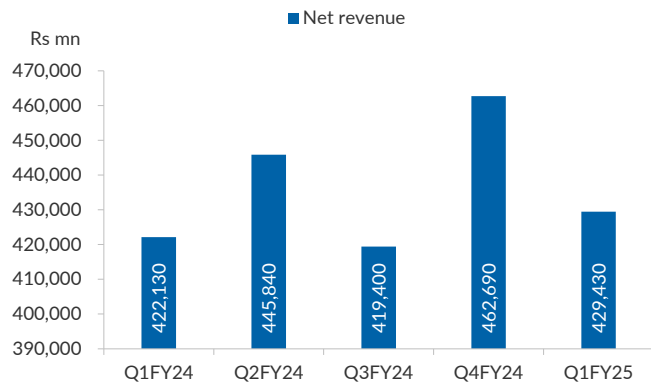
- Expect consolidated capex in FY25 to be ~Rs 20,000 crores.
- With new facilities in Vijayanagar and BPSL being ramped up, expect higher volumes in FY25.
- Guidance for FY25 -
  - Consolidated crude steel production- 28.4 mn tonnes
  - Consolidated saleable steel sales- 27.0 mn tonnes

## Pricing information

- The performance in this quarter was impacted by lower sales realizations and lower volumes which was partly offset by a better product mix.
  - Coking coal prices saw a decrease of \$23/t on a QoQ basis.
  - Guidance - coking coal prices to go down by ~\$20/t for Q2FY25.
- Flat prices in April-May went up by \$15-20/t. During June-July, the prices have fallen down by the same amount and the management expects more price cuts in the upcoming quarter.

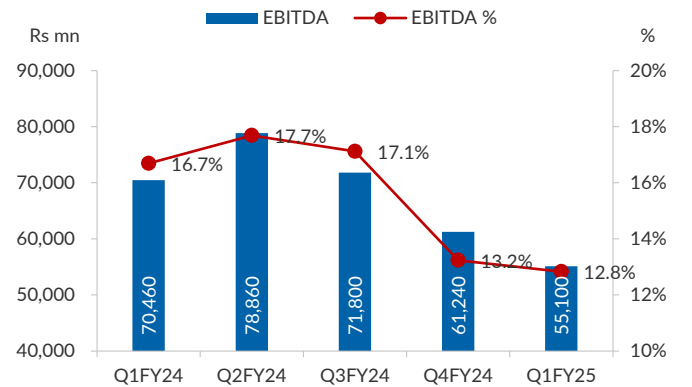
## QUARTERLY TRENDS

**Exhibit 6: Revenue fell ~7.2% QoQ**



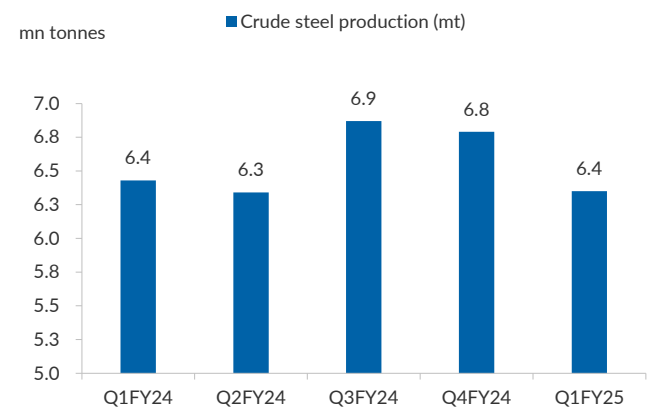
Source: Company, YES Sec

**Exhibit 7: EBITDA impacted by lower volumes**



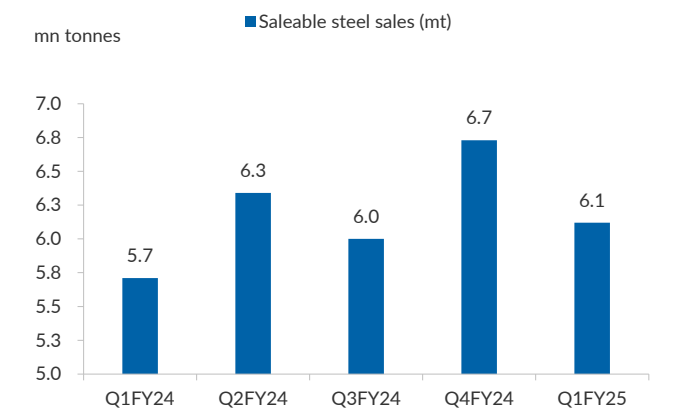
Source: Company, YES Sec

**Exhibit 8: Consolidated crude steel production**



Source: Company, YES Sec

**Exhibit 9: Consolidated saleable steel sales**



Source: Company, YES Sec

## FINANCIALS OVERVIEW

### Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	798,390	1,463,710	1,659,600	1,750,060	1,811,078	2,140,035
Cost of goods sold	394,800	844,530	1,007,910	1,016,780	1,208,540	1,373,454
Employee cost	25,060	34,930	39,150	45,910	47,848	54,781
Other expenses	177,120	194,180	427,070	405,010	271,980	321,381
EBITDA	201,410	390,070	185,470	282,360	282,710	390,419
EBITDA Margins %	25.2%	26.6%	11.2%	16.1%	15.6%	18.2%
Depreciation	46,790	60,010	74,740	81,720	85,121	100,582
Other income	5,920	15,310	10,300	10,040	8,370	8,370
Finance costs	39,570	49,680	69,020	81,050	79,729	79,319
Exceptional items	830	7,410	(5,910)	(5,890)	-	-
Profit before tax	120,150	297,450	56,550	133,800	126,111	218,888
Taxes	41,420	88,070	15,160	44,070	45,493	81,369
Profit after tax	79,110	206,650	41,440	88,120	80,398	137,518

Source: Company, YES Sec

### Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Assets</b>						
Net Block	588,570	929,520	976,990	1,051,230	1,112,509	1,151,928
CWIP	324,330	167,560	219,210	292,160	328,760	363,760
Non-current Assets	1,113,110	1,311,110	1,429,280	1,636,640	1,729,989	1,815,578
Inventory	142,490	337,870	331,350	378,150	397,328	451,546
Receivables	44,860	74,570	71,340	75,480	79,390	93,810
Cash & Bank	128,130	173,830	207,140	123,480	107,280	97,447
Current Assets	358,440	653,660	681,460	645,330	653,305	721,182
<b>Total Assets</b>	<b>1,471,630</b>	<b>1,964,850</b>	<b>2,110,780</b>	<b>2,281,980</b>	<b>2,383,304</b>	<b>2,536,770</b>
<b>Equity and Liabilities</b>						
Share Capital	3,020	3,010	3,010	3,050	3,050	3,050
Reserves	453,080	669,960	653,940	773,640	845,998	969,765
Non-current Liabilities	588,730	703,990	740,760	823,570	819,345	822,711
Current Liabilities	432,990	575,510	699,630	660,650	693,841	720,174
<b>Total Equity and Liabilities</b>	<b>1,471,630</b>	<b>1,964,850</b>	<b>2,110,780</b>	<b>2,281,980</b>	<b>2,383,304</b>	<b>2,536,770</b>

Source: Company, YES Sec

## Exhibit 12: Cash Flow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	120,150	297,450	56,550	133,800	126,111	218,888
Profit before working capital changes	194,550	389,130	208,560	284,720	290,960	398,789
Working capital changes	13,060	(72,640)	31,050	(136,150)	17,015	(42,376)
Cash flow from operations	207,610	316,490	239,610	148,570	307,976	356,413
Taxes paid	(19,300)	(53,790)	(6,380)	(27,790)	(45,493)	(81,369)
<b>Net cash flow from operating activities</b>	<b>188,310</b>	<b>262,700</b>	<b>233,230</b>	<b>120,780</b>	<b>262,483</b>	<b>275,044</b>
Capex	(109,660)	(100,910)	(147,840)	(158,010)	(146,400)	(140,000)
Other investments	11,390	(58,960)	40,730	11,630	(32,070)	(46,171)
<b>Net cash flow from investing activities</b>	<b>(98,270)</b>	<b>(159,870)</b>	<b>(107,110)</b>	<b>(146,380)</b>	<b>(178,470)</b>	<b>(186,171)</b>
Proceeds/(repayment) from borrowings	3,675	(7,048)	5,584	4,530	(1,650)	(650)
Other financial activities	(18,115)	(139,522)	(65,354)	(54,580)	(98,343)	(98,056)
<b>Net cash flow from financing activities</b>	<b>(14,440)</b>	<b>(146,570)</b>	<b>(59,770)</b>	<b>(50,050)</b>	<b>(99,993)</b>	<b>(98,706)</b>
Opening cash balance	39,660	119,430	88,080	154,240	80,300	32,050
Net change in cash	75,600	(43,740)	66,350	(75,650)	(15,980)	(9,832)
FX changes	119,430	88,080	154,240	80,300	64,100	22,218
<b>Ending cash balance</b>	<b>119,430</b>	<b>88,080</b>	<b>154,240</b>	<b>80,300</b>	<b>32,050</b>	<b>11,109</b>

Source: Company, YES Sec

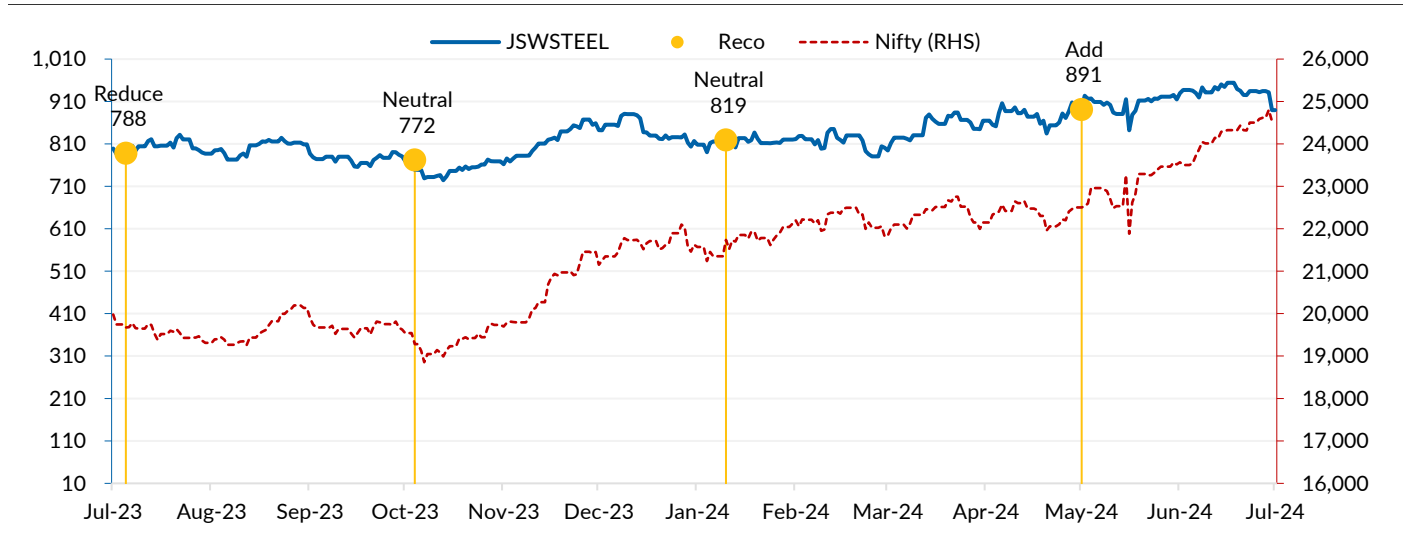
## Exhibit 13: Key Ratios

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Profitability %</b>						
EBITDA	25.2	26.6	11.2	16.1	15.6	18.2
EBIT	19.4	22.5	6.7	11.5	10.9	13.5
PAT	9.9	14.1	2.5	5.0	4.4	6.4
<b>Growth %</b>						
Revenue	8.9	83.3	13.4	5.5	3.5	18.2
EBITDA	69.6	93.7	(52.5)	52.2	0.1	38.1
EBIT	102.7	113.5	(66.5)	81.2	(1.5)	46.7
PAT	100.9	165.9	(80.2)	116.8	(10.2)	70.6
<b>Return Ratios %</b>						
ROE	17.6	30.2	6.2	11.0	9.2	13.8
ROCE	14.9	23.8	7.8	12.4	11.7	16.0

Source: Company, YES Sec



## Recommendation Tracker



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RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER:  
INA000007331 | Sponsor and Investment Manager to YSL Alternates  
Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |  
AMFI ARN Code - 94338.

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## DISCLOSURE OF INTEREST

Name of the Research Analyst : Manav Gogia

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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