

October 28, 2024

RESULT REPORT Q2 FY25 | Sector: Metals and Mining

# JSW Steel Ltd

**Strong quarter despite headwinds; Capacity expansions to fuel growth; Upgrade to ADD!**

## Results Synopsis

JSW Steel's Q2FY25 performance was above the consensus expectations, primarily driven by robust volumes and effective cost management, which offset the declines in net steel realization (NSR). Net revenue from operations decreased by 7.6% QoQ and 11% YoY, with EBITDA down 1.3% QoQ and 31.1% YoY. A decline in coking coal costs of \$27/t provided margin support, with an anticipated further \$20-25/t reduction for Q3FY25. The company is advancing its backward integration initiatives, expanding iron ore mining capacities in Karnataka and Goa, while value-added products continue to hold a substantial 60% share of its product mix.

**Capacities ramp-up underway – Vijayanagar 5.0 mtpa + 2.0 mtpa debottlenecking and relining of BF-III to bring in volumes**

JSW Steel's current Indian capacity stands at 34.2 mtpa, with the ongoing 5.0 mtpa expansion expected to be fully ramped up by Q4FY25. In H1FY26, the BF-III blast furnace at Vijayanagar is slated for relining and capacity enhancement, projected to add 1.5 mtpa. Furthermore, debottlenecking activities at Vijayanagar are anticipated to contribute an additional 0.5 mtpa, collectively driving meaningful volume gains over the course of the next year and a half.

Looking ahead, we project production to grow from ~28 mt in FY25 to about ~34.6 mt by FY27E, marking a strong CAGR of 11%. Sales are projected to grow alongside, moving from ~27 mt to ~33.2 mt by FY27E. Altogether, it's a significant capacity build-out that aligns well with JSW Steel's long-term growth goals.

## Valuation and View

With steel prices anticipated to have bottomed out and China's recent stimulus measures likely to boost steel prices, we expect an improvement in steel spreads from the lows seen in H1FY25. Such an environment could provide JSW Steel with favorable conditions to leverage its expanded capacity effectively.

We project Revenue/EBITDA growth for JSW Steel at a CAGR of 13%/25%, over FY25-27E. With our estimates now rolled over to FY27E, we are raising JSW Steel's valuation multiple to 7.5x. We believe that the company's aggressive capacity expansion, combined with an anticipated recovery in steel prices, positions JSW Steel in a 'sweet spot' to capitalize on growth opportunities within the Indian steel sector.

We value JSW Steel at 7.5x FY27E EV/EBITDA to arrive at our revised target price of Rs 1,045/sh.

## Exhibit 1: Actuals vs Estimates

Rs mn	Actuals	Estimates		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	396,840	408,084	425,600	(2.8%)	(6.8%)	Performance remains robust despite challenging macroeconomic conditions
EBITDA	54,370	45,993	50,510	18.2%	7.6%	
EBITDA (%)	13.70%	11.27%	11.87%	243 bps	183 bps	
PAT	4,390	5,462	4,850	(19.6%)	(9.5%)	

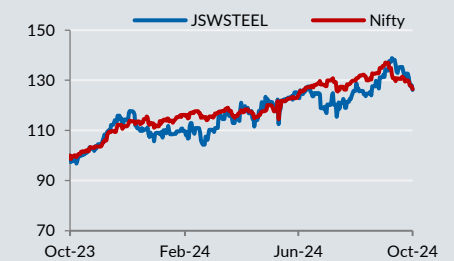
Source: YES Sec

Reco	: ADD
CMP	: Rs 944
Target Price	: Rs 1,045
Potential Upside	: +11%

## Stock data (as on Oct 25, 2024)

Nifty	24,181
52 Week h/l (Rs)	1063 / 723
Market cap (Rs/USD mn)	2337358 / 27794
Outstanding Shares (mn)	2,440
6m Avg t/o (Rs mn):	2,178
Div yield (%):	0.9
Bloomberg code:	JSTL IN
NSE code:	JSWSTEEL

## Stock performance



	1M	3M	1Y
Absolute return	-6.1%	4.8%	29.5%

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

Promoter	44.8%
FII+DII	36.7%
Others	18.2%

## Δ in estimates

	New	Old
<b>FY26E</b>		
Sales (mt)	31.55	31.00
EBITDA/t	11,431/t	12,596/t
<b>FY27E</b>		
Sales (mt)	33.24	NA
EBITDA/t	12,747/t	NA

## Δ in stance

(1-Yr)	New	Old
Rating	ADD	NEUTRAL
Target Price	1,045	911

## Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	1,782,938	2,085,945	2,294,597
YoY (%)	1.9	17.0	10.0
EBIDTA	262,621	360,644	423,721
EBITDA (%)	14.7	17.3	18.5
PAT	49,890	88,334	106,202
ROE	5.9	9.6	10.4
ROCE	10.1	13.9	15.6

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## RESULT HIGHLIGHTS

### Consolidated performance

- Consolidated revenue from operations for the quarter stood at Rs 396,840 mn (vs our estimate of Rs 408,084 mn) down 7.6% QoQ and 11% YoY.
- Absolute EBITDA for the quarter stood at Rs 54,370 mn (vs our estimate of Rs 45,993 mn). EBITDA margins stood at 13.7% for the quarter vs 12.8% in Q1FY25 and 17.7% in Q2FY24.
- Net profit for the quarter stood at Rs 4,390 mn (vs our estimate of Rs 5,462 mn) down 48% QoQ and up 84% YoY.
- Crude steel production for the quarter stood at 6.77 million tonnes; Saleable steel sales stood at 6.13 million tonnes. Share of VAP drops from 64% to 60% for the quarter.
- The company has recognized a net provision of Rs 342 crores for the quarter due to surrendering of an iron ore block in Orissa.
- BPSL Phase-II capacity expansion completed and JVML Vijayanagar Blast Furnace commissioned.
- The company has secured ~2mt of long-term coking coal linkage supply from Coal India.
- Consolidated EBITDA/t came in at Rs 8,869/t vs Rs 9,003/t in Q1FY25.

### Standalone performance

- Standalone revenue from operations stood at Rs 307,780 mn, down 5.7% QoQ and 8.8% YoY.
- Absolute EBITDA stood at Rs 46,410 mn, up 8.6% QoQ and down 32.7% YoY. EBITDA margins
- PAT for the quarter stood at Rs 12,990 mn, up 8% QoQ and down 55.4% YoY.
- Standalone: Crude steel production for the quarter stood at 5.77 million tonnes; Saleable steel sales stood at 5.30 million tonnes.
- Capacity utilization at the Indian operations stood at 91%.
- Standalone EBITDA/t came in at Rs 8,757/t vs Rs 8,399/t in Q1FY25.

### Exhibit 2: Consolidated Operational Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	q/q %	y/y %
Crude steel production (mt)	6.43	6.34	6.87	6.79	6.35	6.77	6.6%	6.8%
Saleable steel sales (mt)	5.71	6.34	6.00	6.73	6.12	6.13	0.2%	(3.3%)
Realization/t	73,928	70,322	69,900	68,750	70,168	64,737	(7.7%)	(7.9%)
EBITDA/t	12,340	12,438	11,967	9,100	9,003	8,869	(1.5%)	(28.7%)

Source: Company, YES Sec

### Exhibit 3: Standalone Operational Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	q/q %	y/y %
Crude steel production (mt)	5.44	5.40	5.72	5.69	5.30	5.77	8.9%	6.9%
Saleable steel sales (mt)	4.93	5.41	5.20	5.69	5.09	5.30	4.1%	(2.0%)
Realization/t	66,513	62,362	64,058	62,111	64,153	58,072	(9.5%)	(6.9%)
EBITDA/t	9,860	12,750	11,113	7,807	8,399	8,757	4.3%	(31.3%)

Source: Company, YES Sec

## Exhibit 4: Consolidated Quarterly Snapshot

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	q/q %	y/y %
Net revenue	422,130	445,840	419,400	462,690	429,430	396,840	(7.6%)	(11.0%)
Cost of goods sold	280,730	300,050	269,300	317,970	297,360	267,940	(9.9%)	(10.7%)
Employee costs	11,610	10,970	11,820	11,510	12,480	12,200	(2.2%)	11.2%
Other expenses	59,330	55,960	66,480	71,970	64,490	62,330	(3.3%)	11.4%
EBITDA	70,460	78,860	71,800	61,240	55,100	54,370	(1.3%)	(31.1%)
EBITDA %	16.7%	17.7%	17.1%	13.2%	12.8%	13.7%	6.8%	(22.5%)
Depreciation	19,000	20,190	20,590	21,940	22,090	22,670	2.6%	12.3%
Other income	3,310	2,370	1,940	2,420	1,640	1,530	(6.7%)	(35.4%)
Finance costs	19,630	20,840	19,960	20,620	20,730	21,300	2.7%	2.2%
Exceptional items	-	(5,890)	-	-	-	3,420	NA	(158.1%)
Profit before tax	34,800	45,850	33,030	20,120	13,800	7,890	(42.8%)	(82.8%)
Taxes	10,520	18,120	8,530	6,900	5,130	3,850	(25.0%)	(78.8%)
Profit after tax	24,280	27,730	24,500	13,220	8,670	4,040	(53.4%)	(85.4%)
Minority interest	-	130	350	230	220	(350)	(259.1%)	(369.2%)
Profit attributable to owners	24,280	27,600	24,150	12,990	8,450	4,390	(48.0%)	(84.1%)

Source: Company, YES Sec

## Exhibit 5: Standalone Quarterly Snapshot

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	q/q %	y/y %
Net revenue	327,910	337,380	333,100	353,410	326,540	307,780	(5.7%)	(8.8%)
Cost of goods sold	229,900	223,270	221,330	251,000	230,750	212,470	(7.9%)	(4.8%)
Employee costs	5,900	5,760	6,060	5,850	6,600	6,270	(5.0%)	8.9%
Other expenses	43,500	39,370	47,920	52,140	46,440	42,630	(8.2%)	8.3%
EBITDA	48,610	68,980	57,790	44,420	42,750	46,410	8.6%	(32.7%)
EBITDA %	14.8%	20.4%	17.3%	12.6%	13.1%	15.1%	15.2%	(26.2%)
Depreciation	12,650	13,590	13,510	14,600	14,600	14,880	1.9%	9.5%
Other income	4,380	4,290	3,860	4,510	3,960	4,390	10.9%	2.3%
Finance costs	14,570	15,310	15,510	15,690	15,900	16,680	4.9%	8.9%
Exceptional items	-	(2,010)	-	2,400	-	3,420	NA	(270.1%)
Profit before tax	25,770	46,380	32,630	16,240	16,210	15,820	(2.4%)	(65.9%)
Taxes	8,720	17,250	8,470	6,170	4,160	2,830	(32.0%)	(83.6%)
Profit after tax	17,050	29,130	24,160	10,070	12,050	12,990	7.8%	(55.4%)

Source: Company, YES Sec

## KEY CONFERENCE 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.
- The policy rate cuts, and China's stimulus package is expected to support consumption; however, geopolitical risks remain elevated.
- China's stimulus package has helped recovery in the steel and raw material pricing; however, the recovery in Chinese demand will have to be closely monitored.

### General business updates

- Mining Costs QoQ: Fall in mining royalty costs was attributed to lower volumes and falling IBM prices on a QoQ basis.
- Focus continues to be on the rise of VAP share which came in at 60% 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.
- ThyssenKrupp India acquisition: CRGO is a critical material used in transformers and generators. Given that that the country is dependent on imports for this, the company expects the demand will be good. Prices and margins are higher for this product due to extensive technological requirements. Current capacity is at 50,000 tonnes. The company will be incurring phased expansions for the same in the future.
- CRGO steel – Some producers in China usually make a margin of \$1,000/t. The management shall be providing more color on the same in due time.
- Overseas operations: Ohio unplanned maintenance shutdown caused lower volumes and was mainly responsible for the loss. NSR fell by ~\$50/t. US has now seen a price improvement post China stimulus, and since it is now operational, volumes should be back to normal. Italy volumes are expected to remain strong.
- Share of exports fell due to non-favorable global macro-environment on account of low realizations and increase in Chinese exports globally.
- Iron ore production: Q1FY25: 6.70 mn tonnes; Q2FY25: 5.20 mn tonnes.
- Karnataka iron ore mining capacity increased from 7.0 mt to 11.0 mtpa. 2 mines in Karnataka to be commissioned by Q4FY25, 3rd mine expected to be commissioned by Q1FY26. Will take captive mining capacity to 15.5 mtpa in Karnataka.
- Goa iron ore mine (for Dolvi plant) will commence operations in next 3-6 months, with a capacity of 0.5 mtpa.
- BPSL iron ore mine should begin production in next 2-3 months, with capacity of 2-3 mtpa.
- Slurry pipeline at Dolvi will reduce costs by Rs 900-1,000/t for iron ore. Quality of iron ore input will be better which will be positive for fuel efficiencies.
- Steel prices during Apr-Sep 2025 have fallen drastically due to increased Chinese dumping. The management now expects the prices to have bottomed out and as we enter the Dec-Jan period, price hikes should be on the cards.
- Coking coal: 2.0 mtpa of contract signed with Coal India for the supply of raw coking coal. This translates into ~1.1 mtpa of clean coking coal. Total coking coal captive capacity gets expanded to ~4.0 mtpa.

## Guidance

- Expect consolidated capex in FY25 to be ~Rs 16,000-17,000 crores in FY25. (Guidance brought down from Rs 20,000 crores, due to transfer of slurry pipeline and relining of BF-3 at Vijayanagar being postponed to H1FY26E).
- Coking coal prices saw a decrease of \$27/t on a QoQ basis. Guidance - coking coal prices to go down by ~\$20-25/t for Q3FY25.
- Volume guidance for FY25E: Consolidated crude steel production- 28.4 mn tonnes; Consolidated saleable steel sales- 27.0 mn tonnes

## VALUATION SUMMARY

### Exhibit 6: Valuation Table

Particulars (Rs mn)	FY27E
EBITDA	423,720.77
EV multiple (x)	7.50
Enterprise value	3,177,905.76
(-) Net debt (H1FY25)	850,980.00
(+) Add: CWIP @ 25% discount (H1FY25)	221,662.50
Equity value	2,548,588.26
Shares outstanding (mn)	2,438.89
Rs/sh	1,044.98
CMP (Rs)	943.85
Upside (%)	10.71%

Source: YES Sec

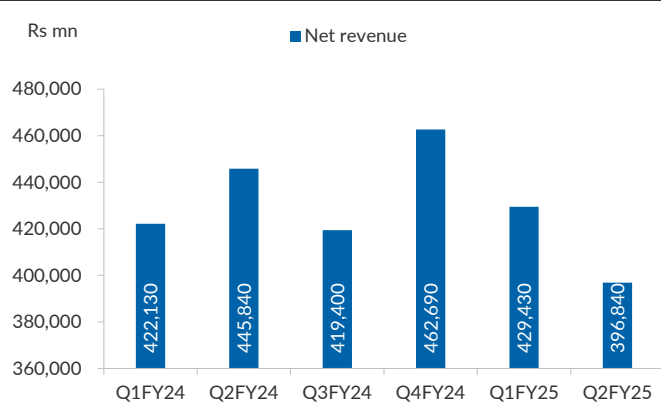
### Exhibit 7: Change in estimates

Particulars (Rs mn)	New Estimates			Old Estimates			% Change in estimates		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales (mt)	26.81	31.55	33.24	27.10	31.00	NA	(1.1%)	1.8%	NA
EBITDA	262,621	360,644	423,721	282,710	390,419	NA	(7.1%)	(7.6%)	NA

Source: YES Sec

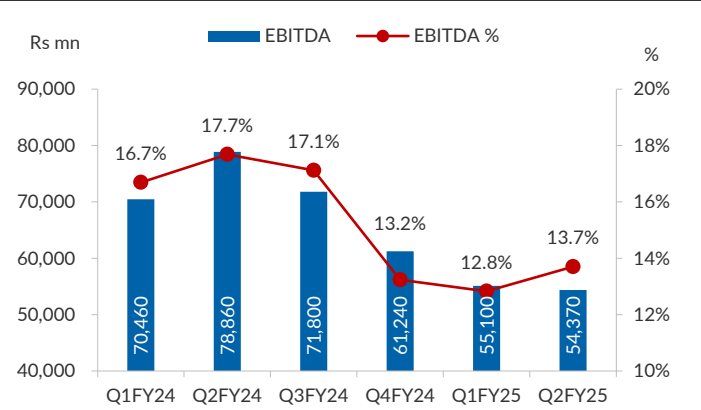
**QUARTERLY PERFORMANCE IN CHARTS**

**Exhibit 8: Revenue fell ~7.2% QoQ**



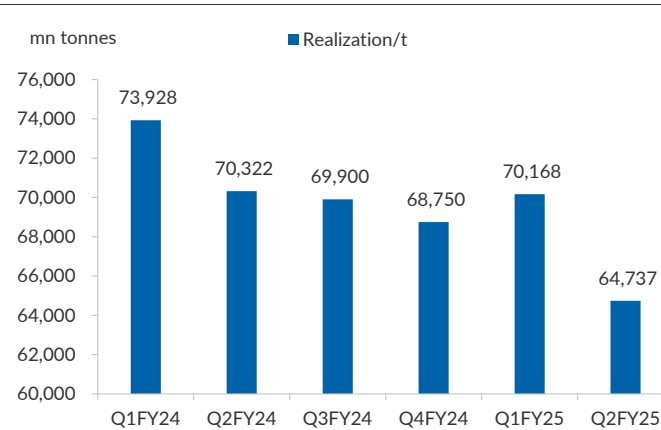
Source: Company, YES Sec

**Exhibit 9: EBITDA impacted by lower volumes**



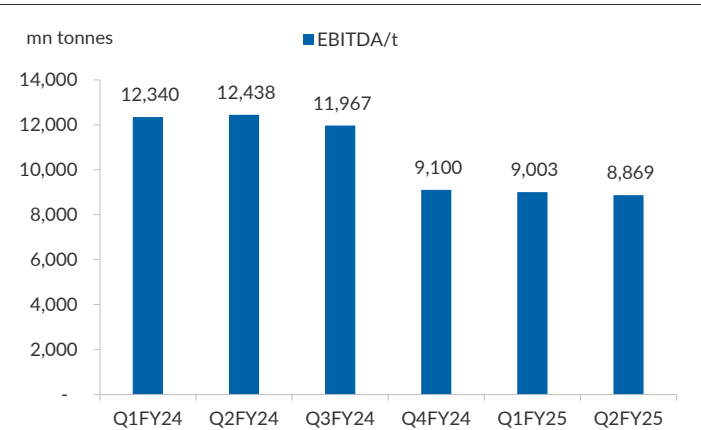
Source: Company, YES Sec

**Exhibit 10: Consolidated crude steel production**



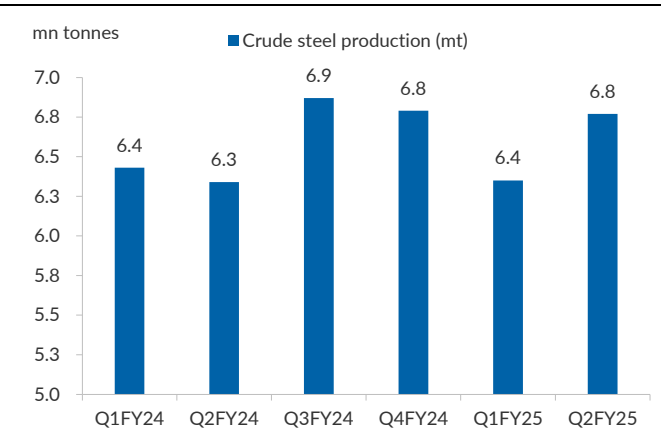
Source: Company, YES Sec

**Exhibit 11: Consolidated saleable steel sales**



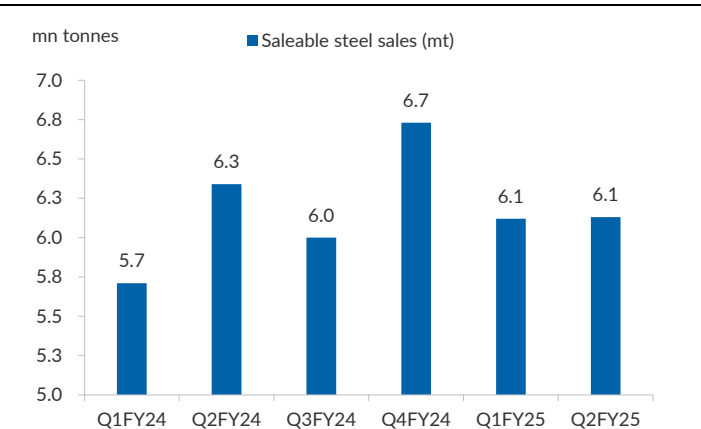
Source: Company, YES Sec

**Exhibit 12: Consolidated crude steel production**



Source: Company, YES Sec

**Exhibit 13: Consolidated saleable steel sales**



Source: Company, YES Sec

## FINANCIALS OVERVIEW

### Exhibit 14: Income Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	798,390	1,463,710	1,659,600	1,750,060	1,782,938	2,085,945	2,294,597
Cost of goods sold	394,800	844,530	1,007,910	1,016,780	1,191,833	1,339,401	1,446,376
Employee cost	25,060	34,930	39,150	45,910	53,380	62,578	68,838
Other expenses	177,120	194,180	427,070	405,010	275,104	323,322	355,663
EBITDA	201,410	390,070	185,470	282,360	262,621	360,644	423,721
% margin	25.2%	26.6%	11.2%	16.1%	14.7%	17.3%	18.5%
Depreciation	46,790	60,010	74,740	81,720	89,147	114,727	137,676
Other income	5,920	15,310	10,300	10,040	6,346	6,842	7,552
Finance costs	39,570	49,680	69,020	81,050	89,775	92,153	95,730
Exceptional items	830	7,410	(5,910)	(5,890)	3,420	-	-
Profit before tax	120,150	297,450	56,550	133,800	85,885	160,607	197,867
Taxes	41,420	88,070	15,160	44,070	36,125	72,273	91,665
Profit after tax	79,110	206,650	41,440	88,120	49,890	88,334	106,202

Source: Company, YES Sec

### Exhibit 15: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Assets</b>							
Net Block	588,570	929,520	976,990	1,051,230	1,098,083	1,099,356	1,081,680
CWIP	324,330	167,560	219,210	292,160	326,160	355,160	385,160
Non-current Assets	1,113,110	1,311,110	1,429,280	1,636,640	1,712,007	1,752,569	1,771,979
Inventory	142,490	337,870	331,350	378,150	293,877	330,263	356,641
Receivables	44,860	74,570	71,340	75,480	78,156	91,439	100,585
Cash & Bank	128,130	173,830	207,140	123,480	258,241	211,785	230,031
Current Assets	358,440	653,660	681,460	645,330	698,806	710,374	769,897
<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>2,410,823</b>	<b>2,462,954</b>	<b>2,541,886</b>
<b>Equity and Liabilities</b>							
Share Capital	3,020	3,010	3,010	3,050	3,050	3,050	3,050
Reserves	453,080	669,960	653,940	773,640	818,541	898,041	993,623
Non-current Liabilities	588,730	703,990	740,760	823,570	877,771	848,568	819,117
Current Liabilities	432,990	575,510	699,630	660,650	690,391	692,224	705,025
<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>2,410,823</b>	<b>2,462,954</b>	<b>2,541,886</b>

Source: Company, YES Sec

## Exhibit 16: Cash Flow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	120,150	297,450	56,550	133,800	85,885	160,607	197,867
Profit before working capital changes	194,550	389,130	208,560	284,720	264,807	367,486	431,273
Working capital changes	13,060	(72,640)	31,050	(136,150)	119,027	(26,191)	(18,476)
Cash flow from operations	207,610	316,490	239,610	148,570	383,834	341,295	412,797
Taxes paid	(19,300)	(53,790)	(6,380)	(27,790)	(36,125)	(72,273)	(91,665)
<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>347,708</b>	<b>269,022</b>	<b>321,132</b>
Capex	(109,660)	(100,910)	(147,840)	(158,010)	(136,000)	(116,000)	(120,000)
Other investments	11,390	(58,960)	40,730	11,630	(28,514)	(39,289)	(37,085)
<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>(164,514)</b>	<b>(155,289)</b>	<b>(157,085)</b>
Proceeds/(repayment) from borrowings	3,675	(7,048)	5,584	4,530	4,200	(6,000)	(4,000)
Other financial activities	(18,115)	(139,522)	(65,354)	(54,580)	(52,763)	(154,189)	(141,801)
<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>(48,563)</b>	<b>(160,189)</b>	<b>(145,801)</b>
Opening cash balance	39,660	119,430	88,080	154,240	80,300	107,531	45,806
Net change in cash	75,600	(43,740)	66,350	(75,650)	134,631	(46,456)	18,246
FX changes	119,430	88,080	154,240	80,300	215,061	61,075	64,052
<b>Ending cash balance</b>	<b>119,430</b>	<b>88,080</b>	<b>154,240</b>	<b>80,300</b>	<b>107,531</b>	<b>45,806</b>	<b>48,039</b>

Source: Company, YES Sec

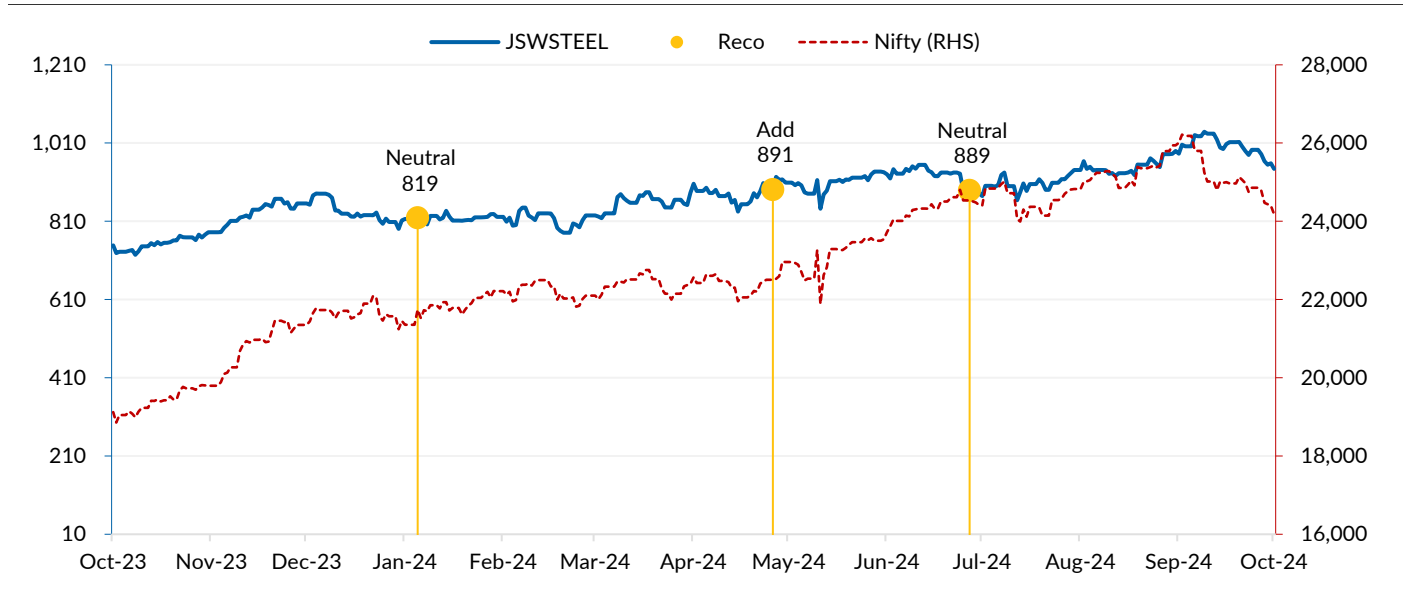
## Exhibit 17: Key Ratios

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Profitability %</b>							
EBITDA	25.2	26.6	11.2	16.1	14.7	17.3	18.5
EBIT	19.4	22.5	6.7	11.5	9.7	11.8	12.5
PAT	9.9	14.1	2.5	5.0	2.8	4.2	4.6
<b>Growth %</b>							
Revenue	8.9	83.3	13.4	5.5	1.9	17.0	10.0
EBITDA	69.6	93.7	(52.5)	52.2	(7.0)	37.3	17.5
EBIT	102.7	113.5	(66.5)	81.2	(13.5)	41.8	16.3
PAT	100.9	165.9	(80.2)	116.8	(44.5)	77.5	20.2
<b>Return Ratios %</b>							
ROE	17.6	30.2	6.2	11.0	5.9	9.6	10.4
ROCE	14.9	23.8	7.8	12.4	10.1	13.9	15.6

Source: Company, YES Sec



## Recommendation Tracker



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