

JSW Steel

HOLD

In-line Revenue; EBITDA below Estimates

Summary

JSW Steel's Q4FY24 EBITDA was 8% below our forecast. In Q4FY24, consolidated revenue grew 10.3% QoQ on sales volumes growth of 12.2% QoQ and weak realization due to lower steel prices. EBITDA decreased by 15% QoQ led by higher coking coal prices. In Q4FY24, net debt decreased by Rs53 bn QoQ to Rs739 bn on debt repayment. Further, JSW Steel acquired ~92% stake in a company at a cost of \$74 mn (EV \$80 mn), securing 800 mn tonne of hard coking coal reserves to improve raw material security. Moreover, JSW expects sales volume to grow by 9% in FY25. We cut FY25/FY26 EBITDA estimates by 8%/6% and value the stock at an EV/EBITDA multiple of 7x FY26 EBITDA to derive a target price of Rs832 (earlier Rs829) and maintain HOLD rating on the stock.

Key Highlights and Investment Rationale

- Share of value-added products increased:** During Q4FY24, JSW's India operations sales volume increased by 11% QoQ to 6.48 mn tonnes led by higher exports (20% of sales in Q4FY24 vs. 9% in Q3FY24). The contribution from value added products increased to 62% in Q4FY24 vs. 60% in Q3FY24. Importantly, JSW's US Ohio sales volumes jumped QoQ as well as YoY to 0.25 mn tonnes due to improved demand in the US Operations.
- Projects on track:** Expansion ramp up at Vijaynagar and BPSL ramp up is expected during FY25 with revenue generation by FY26. Concurrently, BF3 at Vijaynagar is slated for shutdown for planned capacity expansion. Further, capacity expansion at Dolvi phase 3 has been approved to 15mn tonne with special focus on wide plate mill products aimed at reducing production costs. The company incurred a capex of Rs38 bn in Q4FY24 (Rs167 bn in FY24) and expects to spend Rs200 bn and Rs230 bn in FY25 and FY26, respectively.

TP	Rs832
CMP	Rs891
Potential upside/downside	-7%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	3.0	8.6	28.6
Rel to Sensex	1.7	6.9	8.7

V/s Consensus

EBITDA (Rs bn)	FY25E	FY26E
IDBI Capital	324	375
Consensus	354	406
% difference	(-8.5)	(-7.6)

Key Stock Data

Bloomberg / Reuters	JSTL IN / JSTL.BO
Sector	Metal & Mining
Shares o/s (mn)	2,445
Market cap. (Rs mn)	2,178,899
3-m daily average value (Rs mn)	81.6
52-week high / low	Rs914 / 681
Sensex / Nifty	74,006 / 22,502

Shareholding Pattern (%)

Promoters	44.8
FII	26.1
DII	9.8
Public	19.3

Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,464	1,660	1,750	1,917	2,083
Change (yoy, %)	83	13	5	10	9
EBITDA	390	185	282	324	375
Change (yoy, %)	94	(52)	52	15	16
EBITDA Margin(%)	26.6	11.2	16.1	16.9	18.0
Adj.PAT	214	36	82	119	153
EPS (Rs)	89	15	34	49	63
Change (yoy, %)	168.8	(83.4)	128.1	44	29
PE(x)	10.0	60.3	26.4	18.3	14.2
Dividend Yield (%)	1.9	0.4	0.8	0.7	1.1
EV/EBITDA (x)	6.8	14.7	10.3	8.9	7.5
RoE (%)	37.5	5.3	11.5	14.3	15.1
RoCE (%)	25.6	7.2	11.9	12.9	14.3

Source: IDBI Capital Research

Ajit Sahu

ajit.sahu@idbicapital.com
+91-22-4069 1849

Exhibit 1: Quarterly Snapshot (Consolidated)

(Rs mn)

Year-end: March	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Net sales	4,62,690	4,19,400	10.3	4,69,620	(1.5)
Expenditure	4,01,450	3,47,600	15.5	3,90,230	2.9
EBITDA	61,240	71,800	(14.7)	79,390	(22.9)
<i>EBITDA margin (%)</i>	<i>13.2</i>	<i>17.1</i>	<i>-388bps</i>	<i>16.9</i>	<i>-367bps</i>
EBITDA per ton	9,100	11,967	(24.0)	12,158	(25.2)
Interest	20,620	19,960	3.3	21,380	(3.6)
Depreciation	21,940	20,590	6.6	20,090	9.2
PBT	20,120	33,030	(39.1)	42,490	(52.6)
Exceptional items	-	-	-	-	-
Tax	6,900	8,530	(19.1)	5,080	35.8
Net profit	12,990	24,150	(46.2)	36,640	(64.5)
Adjusted Net profit	12,990	24,150	(46.2)	36,640	(64.5)
Adjusted EPS	5.3	9.9	(46.2)	15.2	(65.1)

Source: Company; IDBI Capital Research

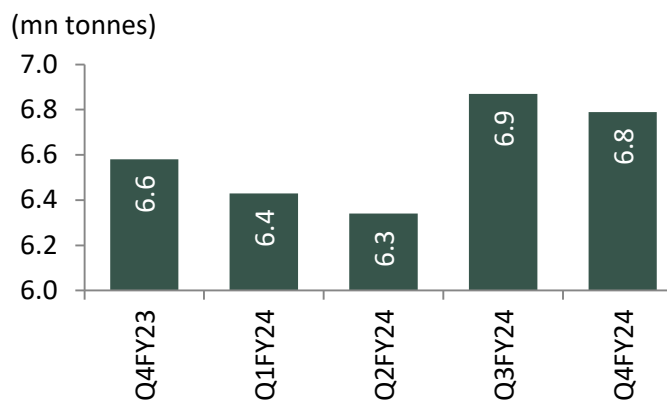
Exhibit 2: Actual vs. Estimates

(Rs mn)

	Q4FY24E	Q4FY24A	Variance (%)
Net sales	4,61,515	4,62,690	0.3
EBTIDA	66,750	61,240	(8.3)
EBITDA margin (%)	14.5	13.2	-123bps
<i>EBITDA/tonne</i>	<i>9,604</i>	<i>9,100</i>	<i>(5.3)</i>
Adj. PAT	20,748	12,990	(37.4)
Adj. diluted EPS (Rs)	8.6	5.3	(38.3)

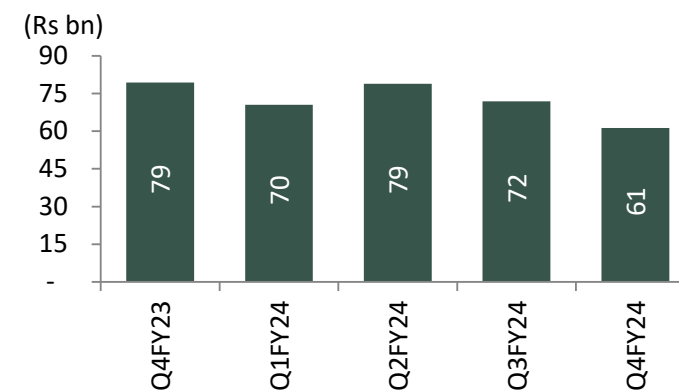
Source: Company; IDBI Capital Research

Exhibit 3: Consolidated sales volume grew by 3.2% YoY



Source: Company; IDBI Capital Research

Exhibit 4: Consolidated EBITDA fell by 23% YoY



Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates

	FY25E			FY26E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs bn)	1,772	1,917	8.2	1,870	2,083	11.4
EBITDA (Rs bn)	352	324	(7.9)	398	375	(5.8)
EBITDA margin (%)	19.9	16.9	-300bps	21.3	18.0	-330bps
Adj. Net profit (Rs bn)	133	119	(10.9)	155	153	(1.4)
Adj. EPS (Rs)	55.2	48.6	(12.0)	64.4	62.6	(2.7)

Source: Company; IDBI Capital Research

Conference call highlights

Business metrics

- Company is controlling its raw material price volatility by procuring mines. As of now 24 mines secured for iron ore out of which 13 are currently operational and rest are being commissioned. 3 coking coal mines are also under process of being commissioned.
- 35% of iron ore requirements are fulfilled by captive iron ore productions.
- Current capacity for mines stands at 1) Karnataka 15.5mt 2) Goa 1-2mt 3) Odisha 25mt.

Mozambique Coking Coal Mine Acquisition

- JSW Steel acquired ~92% stake in MDR at a cost of \$74 mn (EV \$80 mn), securing 800 mn tonne of hard coking coal reserves (including 270 million tonnes of Prime hard coking coal). It is one of the largest reserves globally. It expected commencement of mine development to start in H2FY25.

Guidance

- Expansion at Vijayanagar and BPSL is expected to ramp up during FY25, with benefits anticipated by FY26. BF3 at Vijayanagar is scheduled for shutdown for planned capacity expansion.
- Approval has been granted for capacity expansion at Dolvi phase 3 to 15 million tonnes, with a special focus on wide plate mill products aimed at reducing production costs.
- Brownfield expansions will support capacity expansion until the 51 million tonnes target is achieved by FY31, with potential expansion sites at Vijayanagar and BPSL. Additionally, for further capacity increment beyond 51 million tonnes, Greenfield projects with an expansion in Odisha by 13 million tonnes are planned.
- The company's focus will be on increasing the contribution of VSP and maintaining it at 50% levels.
- Global macros for exports appear positive, indicating signs of growth.
- Concerns persist regarding Chinese steel imports into domestic markets with rising steel prices.
- Management expresses confidence in India's growth trajectory and anticipates a promising pace for the coming years.

Financial Summary

Profit & Loss Account

(Rs bn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	798	1,464	1,660	1,750	1,917	2,083
<i>Change (yoy, %)</i>	8.9	83	13	5	10	9
Operating expenses	(597)	(1,074)	(1,474)	(1,468)	(1,593)	(1,708)
EBITDA	201	390	185	282	324	375
<i>Change (yoy, %)</i>	69.6	94	(52)	52	15	16
<i>Margin (%)</i>	25.2	26.6	11.2	16.1	16.9	18.0
Depreciation	(47)	(60)	(75)	(82)	(90)	(100)
EBIT	155	330	111	201	234	275
Interest paid	(40)	(50)	(69)	(81)	(81)	(75)
Other income	6	15	10	10	10	10
Pre-tax profit	120	297	57	134	161	208
Tax	(41)	(88)	(15)	(44)	(41)	(52)
<i>Effective tax rate (%)</i>	34.5	29.6	26.8	32.9	25.2	25.2
Minority Interest	0.4	(2.7)	0.1	(1.6)	(2.2)	(2.8)
Net profit	79	207	41	88	119	153
Exceptional items	(1)	(7)	6	6	-	-
Adjusted net profit	80	214	36	82	119	153
<i>Change (yoy, %)</i>	81.2	168	(83)	131	44	29
EPS	33.2	89.2	14.8	33.7	48.6	62.6
Dividend per share	6.5	17.4	3.4	7.3	5.9	9.9
<i>Dividend Payout (%)</i>	19.7	19.5	23.0	22	12	16

Balance Sheet

(Rs bn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	468	673	657	777	883	1,014
Share capital	3	3	3	3	3	3
Reserves & surplus	465	670	654	774	880	1,011
Total Debt	517	700	788	856	786	736
Other liabilities	91	125	121	150	150	150
Curr Liab & prov	413	455	531	478	523	561
Current liabilities	410	452	528	474	519	557
Provisions	3	3	3	4	4	4
Total liabilities	1,022	1,280	1,440	1,484	1,459	1,447
Total equity & liabilities	1,483	1,965	2,111	2,282	2,365	2,488
Net fixed assets	972	1,166	1,265	1,420	1,530	1,610
Investments	88	49	48	72	72	72
Other non-curr assets	64	96	116	144	144	144
Current assets	358	654	682	645	618	661
Inventories	142	338	331	378	383	417
Sundry Debtors	45	75	71	75	79	80
Cash and Bank	128	174	207	123	88	96
Other current assets	43	67	72	68	68	68
Total assets	1,483	1,965	2,111	2,282	2,365	2,488

Cash Flow Statement

(Rs bn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	120	297	57	134	161	208
Depreciation	47	60	75	82	90	100
Tax paid	(23)	(47)	(12)	(27)	(41)	(52)
Chg in working capital	137	(184)	86	(96)	36	4
Other operating activities	40	(1)	(0)	-	-	-
Cash flow from operations (a)	321	125	205	92	246	260
Capital expenditure	(127)	(254)	(174)	(236)	(200)	(180)
Chg in investments	(76)	39	1	(24)	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(203)	(215)	(173)	(261)	(200)	(180)
Equity raised/(repaid)	-	-	-	0	-	-
Debt raised/(repaid)	(93)	182	89	67	(70)	(50)
Dividend (incl. tax)	(16)	(42)	(8)	(18)	(15)	(24)
Chg in minorities	(0)	16	1	6	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(109)	157	82	56	(85)	(74)
Net chg in cash (a+b+c)	10	67	114	(113)	(38)	6

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	194.0	280	273	318	362	416
Adj EPS (Rs)	33.2	89.2	14.8	33.7	48.6	62.6
Adj EPS growth (%)	81.2	169	-83	128	44	29
EBITDA margin (%)	25.2	26.6	11.2	16.1	16.9	18.0
Pre-tax margin (%)	15.0	20.3	3.4	7.6	8.4	10.0
Net Debt/Equity (x)	0.8	0.8	0.9	0.9	0.8	0.6
ROCE (%)	14.6	26	7	12	13	14
ROE (%)	19.2	38	5	11	14	15

DuPont Analysis

Asset turnover (x)	0.6	0.8	0.8	0.8	0.8	0.8
Leverage factor (x)	3.4	3.0	3.1	3.1	2.8	2.5
Net margin (%)	10.0	14.6	2.1	4.7	6.2	7.3

Working Capital & Liquidity ratio

Inventory days	65	84	73	79	73	73
Receivable days	21	19	16	16	15	14
Payable days	93	105	95	83	87	89

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	26.9	10.0	60.3	26.4	18.3	14.2
Price/Book value (x)	4.6	3.2	3.3	2.8	2.5	2.1
EV/Net sales (x)	3.2	1.8	1.6	1.7	1.5	1.4
EV/EBITDA (x)	12.6	6.8	14.7	10.3	8.9	7.5
Dividend Yield (%)	0.7	1.9	0.4	0.8	0.7	1.1

Source: Company; IDBI Capital Research



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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